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STEEL TRADE LIBERALIZATION PROGRAM IMPLEMENTATION ACT

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL TRADE

OF THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

FIRST SESSION

ON

H.R. 3275

OCTOBER 27, 1989

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STEEL TRADE LIBERALIZATION PROGRAM IMPLEMENTATION ACT

FRIDAY, OCTOBER 27, 1989

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL TRADE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 1:05 p.m. in room SD-215, Dirksen Senate Office Building, Hon. Max Baucus (chairman of the subcommittee) presiding.

Also present: Senators Rockefeller, Packwood, and Heinz.

[The press release announcing the hearing follows:]

[Press Release No. H-52, Oct. 17, 1989]

FINANCE SUBCOMMITTEE TO HOLD HEARING ON THE "STEEL TRADE LIBERALIZATION PROGRAM IMPLEMENTATION ACT"

WASHINGTON, DC—Senator Max Baucus (D., Montana), Chairman of the Subcommittee on International Trade, announced Tuesday that the Subcommittee will hold a hearing on H.R. 3275, the "Steel Trade Liberalization Program Implementation Act."

The hearing is scheduled for *Friday, October 27, 1989 at 1 p.m.* in Room SD-215 of the Dirksen Senate Office Building.

On July 25, 1989, President Bush announced a program to extend steel voluntary restraint arrangements (VRAs) for two and one-half years, and to seek an international consensus to remove unfair trade practices.

On October 2, 1989, the House of Representatives passed H.R. 3275, a bill that provides for the implementation of the President's Steel Trade Liberalization Program. The bill amend the Steel Import Stabilization Act (title VIII of the Trade and Tariff Act of 1984, 19 U.S.C. 2253 note) to extend the termination date for enforcement of bilateral steel arrangements until March 21, 1992, and otherwise to provide for implementation of the President's program. An identical measure (S. 1701) was introduced in the Senate by Senator Bob Packwood (R., Oregon) on September 29, 1989.

Senator Baucus said, "The Senate must consider the legitimate concerns of both steel users and the U.S. steel industry before providing for extension of the steel VRA program."

OPENING STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM MONTANA, CHAIRMAN OF THE SUBCOMMITTEE

Senator BAUCUS. The hearing will come to order.

On July 25th the Bush administration announced its proposal for extending the Steel Voluntary Trade Agreement Program. The Bush proposal called for a 2½-year extension of the VRA's. Meanwhile, the United States will initiate negotiations aimed at reaching an international consensus to end steel subsidies and other protections. Yet, of 2½ years, the steel industry will rely upon U.S.

unfair trade laws to address foreign unfair trade practices instead of VRA's.

Our colleagues in the House moved quickly to put together a package of legislation necessary to carry out the President's plan, and today the Senate begins the process of considering companion legislation.

Personally, I believe the Bush administration has struck a sound balance between the interests of the U.S. steel industry and steel users. The House bill seems to faithfully reflect that balance.

The U.S. steel industry does have legitimate concerns, however. Some of our trading partners, particularly the EC and various Latin American nations, have extensively subsidized their steel capacity. Without a doubt, in the absence of the steel VRA program, the U.S. steel industry could bring many successful countervailing duty and anti-dumping cases. And, as a Section 201 complaint that the industry brought in 1984 demonstrated, the U.S. steel industry has suffered because of steel imports.

In 1984 the administration and the Congress decided that the most efficient way to address legitimate concerns of the steel industry was to institute a VRA program. At the time, that was the right decision, but times have changed. The VRA program has had unfortunate consequences for domestic steel users. The VRA program has put some domestic steel-using industries at a disadvantage in international markets by raising prices.

The severest steel shortage of 1987 was exacerbated by the VRA and the poor operation of its short-supply provisions. The resulting supply disruption caused a significant competitive problem for steel users.

Since steel is used in such a wide array of industries, everyone from farmers to auto workers suffered. The problem is that the VRA program was a blunt instrument. The VRA lumps almost all of the nations that export steel to the United States together, but some clearly engage in more culpable trading practices than others. We would be better off focusing our efforts on the truly unfair traders.

If the President had chosen to extend the VRA program for longer than 2½ years, I would have seriously considered opposing an extension. But as it is, the President's proposal extends the VRA program long enough to allow the U.S. steel industry to complete the modernizations begun in 1984 while changing the focus of the steel program from limiting imports to ending unfair trade practices.

The legislation passed by the House provides the administration with the tools they need to implement the plan and includes important safeguards. I hope that we can quickly pass legislation identical to the House bill.

Before closing, I would like to make two points:

First, the administration is still engaged in negotiations with several nations to conclude VRA's. Given the sensitive nature of these negotiations, the administration has requested that we not press for details regarding ongoing negotiations in this forum, and I hope that all Senators can abide by the administration's request.

Second, I have been somewhat concerned with the manner in which some editorial writers have treated the decision to temporar-

ily extend the VRA program. Many have argued that the United States is being hypocritical to press other nations to remove trade barriers under Super 301 while extending the steel VRA. There is some merit to this observation.

I wish that the United States could afford to practice complete free trade, but that is simply not realistic. Unfortunately, I believe these editorial writers are missing the forest for the trees. The United States does have trade barriers of its own, but it has far fewer than our trading partners. Even in the sectors in which the United States is most frequently accused of protectionism—steel, textiles, and autos—the U.S. imports far more per capita than either Europe or Japan. Even with the steel VRA, the United States is still the world's number-one steel importer.

I don't cite these facts to justify further U.S. protectionism, but it is important to keep the steel VRA program in perspective.

[The prepared statement of Senator Baucus appears in the appendix.]

Senator BAUCUS. Senator Rockefeller, do you have any statements?

Senator ROCKEFELLER. I do, indeed, Mr. Chairman. It may have a somewhat different ring than yours.

OPENING STATEMENT OF HON. JOHN D. ROCKEFELLER IV, A U.S. SENATOR FROM WEST VIRGINIA

Senator ROCKEFELLER. Mr. Chairman, I think this is a very important hearing. In fact, a lot of America is waiting for this hearing. I think this hearing is important not just to the steel industry and to the steel workers, but I think it is important for the entire country.

I regard the President's July 25th decision to extend the Voluntary Restraint Agreement as, in fact, the most important trade decision that he will make, certainly this year, perhaps for the next several years. This is a fundamental trade issue. The VRA bill is a fundamental trade bill.

When I was named chairman of the Senate Steel Caucus this past January, and working very, very closely with Senator Heinz of Pennsylvania, we wanted to see the VRA program extended for 5 years. We are proud of the fact that we got 57 cosponsors for that piece of legislation. Since introducing that bill, Senator Heinz and I have used every possible means at our disposal to try to present our case, which we feel is compelling, and we took that case directly to the cabinet room of the White House, presented it to the President. I am glad to say that at least the President has come forward with a 2½-year extension on the VRA's, which I think is crucial for the economic health of this country.

Mr. Chairman, to put it very bluntly, since the end of the Second World War governments throughout the world have been getting into the steel business. Every nation that is small and wants to get larger or wants to increase its national stature has to do two things: They have to have one airplane, at least, to constitute a national airline, and they have got to start up a steel industry. Most of these steel industries, therefore, are either State-owned or State-

subsidized, and in fact, with the exception of the Untied States and Japan, that is almost universally the case.

Now, I have no quarrel with the fact that countries start up steel industries; that is their business. But where I ardently believe we must draw the line is at the place that determines the level of subsidized imported steel entering into our own country. Fortunately, the President did listen, in fact, to our arguments on this count and announced his plan to both extend the current VRA program for another 2½ years and to begin a process aimed at negotiating an end to unfair trade practices in steel throughout the world.

Though I still believe the better decision would have been to extend the VRA's for 5 years; nevertheless, I am relieved that the administration rejected various proposals put to them very strongly to drop certain countries and to drop certain products from being covered by these agreements.

For example, exempting a product like semifinished steel, which was in fact suggested by very many, would have been disastrous. Our nation's steel industry is doing every possible thing it can to finish major capital-intensive renovation of its facilities. In fact, that is the beauty of the VRA agreement, that it has encouraged, mandated, and effectuated an enormous amount of modernization on the part of our steel industries without a dime from the Federal Government, not one dime. The steel industry is trying to achieve 100-percent continuous casting, for example. But if we allow our country to be flooded by cheap semifinished steel, the American steel industry would be weakened and their modernization plans might very well have to be shelved.

The one specific concern that I have, Mr. Chairman, with the VRA program of the past was the way in which short-supply requests were treated. However, under the very able leadership of Secretary Mosbacher, who has been a resolute and excellent friend throughout this entire process, and the administration, I have found that their response to the short steel supply matter is excellent.

Now, I am a realist, and I want to see the VRA program fully renewed. I want to see it activated, and I asked, therefore, to be an original cosponsor of Senator Packwood's bill, S. 1701, that would give the necessary authority to put President Bush's VRA plan into effect. This will provide the necessary enforcement authority—we have to have that—for the VRA extension until March 31, 1992.

It is good and hopeful news that this administration has taken on this entire challenge, and I am pleased by that; but let us be honest: negotiating a comprehensive agreement to end unfair trade practices is going to be highly ambitious, perhaps highly improbable.

Just look at what is taking place right now in the Uruguay Round. Some U.S. importers and some U.S. multinational companies are beginning to push, in fact to weaken, U.S. dumping and countervailing duty laws. Those are two crucial mechanisms that have been used successfully in the past by steel to redress unfair trade practices that do exist in other countries.

My point, Mr Chairman, is that while I believe that we pursue the difficult work of trying to eliminate unfair trade practices like the steel subsidies that abound in other countries, we should not

falter and we should not retreat one step from our own national steel policy that rests squarely on the VRA program. It is a policy that is working, not only for the steel industry but for the United States of America. It is also, however, a program which is uncompleted. It is a policy that is enabling and even driving our steel industry to reinvest, to modernize, to retrain workers, and to become truly competitive.

In my State of West Virginia, for example, Wierton Steel has embarked on a 5-year $650 million modernization program which is going to bring them up to 100 percent continuous casting, and that they need, and that they must have, and that they could not get without the assistance of the VRA program.

Wheeling-Pittsburgh Steel, in my judgment, is on the verge of coming out of bankruptcy and being able to start up a major modernization effort. That would not happen without the VRA program. We should not allow grander plans for trade negotiations—and, again, I support those trade negotiations—to undermine the VRA program that has done so much to help our steel industry improve their productivity, their profits, and their performance.

Finally, Mr. Chairman, even though our steel industry has rebounded to some extent, in large part, in fact, thanks to the VRA program that started in 1984, we must recognize that the U.S. steel industry is not out of the woods financially by any means; there are numerous signals that the industry may be on the verge of entering a period of slump, that prices are falling, that profits are evaporating, and inventories are piling up.

As noted in case after case, steel imports and unfair trade practices are a principal cause of these disturbing trends. This is not a fairyland that we live in; other countries know exactly what they are doing; they persist in doing that; we are not going to change them from doing that; and we have to be able to assist our own industry, which after all is doing this entirely on their own.

You talk about sacrifice, Mr. Chairman; 60 percent of the steel workers in this country have been laid off—laid off. There have been bankruptcies. Twenty-five percent of more of our steel production is gone, gone forever. And this was all done within the market system, within the fair-play rules, rules that other countries are not following.

So I think there is nothing wrong with standing up for the steel industry and standing up for the people who work in the steel mills of our country. It is important for our Nation.

Mr. Chairman, I believe this committee should work with the administration to bring about real solutions and effective changes to assure that steel is traded fairly and treated fairly across the globe. But while we work towards that goal, we should insist on the full implementation of this VRA program. This program is producing tangible benefits and making a vital contribution to the entire U.S. economy and work force that should not be allowed to diminish.

I thank the Chair.

[The prepared statement of Senator Rockefeller appears in the appendix.]

Senator BAUCUS. Senator Heinz?

OPENING STATEMENT OF HON. JOHN HEINZ, A U.S. SENATOR FROM PENNSYLVANIA

Senator HEINZ. Thank you, Senator Baucus.

Mr. Chairman, first I want to thank you very much for holding these hearings on S. 1701 and the steel VRA program. I want to associate myself with Senator Rockefeller's comments, that were both eloquent and very thorough, with respect to the status of the steel industry and the need for the continuation of the VRA program. He has provided all the comprehensive data and details of the reason why, if there be any doubters, it is simply not possible for a free-enterprise, unsubsidized, unprotected American steel industry to compete and survive against subsidized and protected foreign competitors. It is as simple as that.

Now, I don't think there is much controversy on the legislation that is before us, so I want to make just two points, not so much on the legislation but on the negotiations that are underway.

We all know that when the President made his decision to extend the VRA program, he was doing so in part out of a commitment that he made to me a year ago. At that time he promised to extend the program "pending the negotiation of an international consensus" on ending subsidies and dumping in the steel sector. Fair enough.

The President has apparently decided that such a consensus can be reached by March 1992. I have to say I was skeptical when it was announced, and I remain skeptical that that consensus can and will be reached, but I hope he is right. But I want to be clear in stating that, if there is no adequate international agreement by that date, I, and I suspect Senator Rockefeller and possibly all the other of our 57 cosponsors, will join in asking the President to adhere to his commitment and to further extend the VRA program until such time as we do get that international consensus.

Second, I want to say a word about what I sense is the progress of the subsidies consensus negotiations thus far. And while I would be the first to admit that the important question is what kind of consensus we are going to have after March 1992, rather than between now and then, I am concerned that the bilateral consensus agreements being negotiated, whether or not they are temporary, contain some dangerous precedents for the other big and, frankly much more important, negotiation that is taking place, namely the Uruguay Round.

One of those concerns centers around the definition of "subsidy" that we are accepting and which may effectively permit the continuation of certain kinds of subsidies.

Now, from what I understand, the definition of "coverage" that is being used may be in fact an expansion, insofar as coverage is concerned, of that in the Subsidies Code. But I would suggest that the proper comparison is, "What are we doing in relationship to the U.S. countervailing duty law?"—our right to countervail against subsidies.

If the agreements that we are negotiating don't provide better protection than the United States can provide under existing law, then, frankly, we will have gained nothing; it will have been an exercise—a long one, a difficult one, but one of futility—and the in-

dustry will ultimately be forced back to the situation that existed prior to 1984, which is dozens upon dozens of countervailing duty cases, prepared at great expense, making the trade lawyers in town delightfully fat and happy but also impoverishing anybody who has to file those cases.

I have to say also that, in addition, allowing the continuation of certain subsidies risks prejudicing or Uruguay Round negotiating position. I have no doubt whatsoever that when those talks intensify, we will hear with some frequency the argument that in the steel negotiations we, and I quote, "accepted" certain subsidies in those negotiations and therefore should accept them in the general negotiations as well. That could lead to a significant rollback in our countervailing duty law in the future, despite the administration's claims that it remains intact at this point. And at this point, that is true. It is what happens later that I worry about.

Likewise, the administration's apparent acceptance of an international arbitration scheme in the steel negotiations will almost certainly lead to demands next year that we accept it for all subsidy cases. In this Senator's judgment, that would mean another nail in the coffin of our trade laws, and that doesn't even address the question of where you find an objective third-party arbiter today on the question of subsidies.

So, to conclude, I have to say I am baffled, after 40 years of unpleasant experience with the GATT dispute-settlement process, why the administration would either want to or want to take the chance of significantly increasing our reliance on that troubled dispute-settlement process in one of the most intractable areas of trade policy that we have.

It is this Senator's judgment that our dumping and subsidy laws are the only tools our industry has to defend free-market principles internationally. So it is no surprise that those laws are under attack by our trading competitors, both in the GATT and in the very countries that subvert those principles every day. The consequences of surrendering to such an attack, even if inadvertently or unintentionally, will be devastating to our manufacturing sector.

Now, I recognize the administration believes it can and maybe intends to avoid those consequences. But I hope our witnesses can reassure us that they have developed a coherent strategy, not just wishful thinking, for doing so, because it seems to me the steel negotiations have opened the door to precisely this kind of threat.

Thank you, Mr. Chairman.

Senator BAUCUS. Senator Packwood, do you have a statement?

Senator PACKWOOD. I do.

OPENING STATEMENT OF HON. BOB PACKWOOD, A U.S. SENATOR FROM OREGON

Senator PACKWOOD. First I ask unanimous consent that the statement of Senator Heinz be part of the record.

Senator BAUCUS. No objection.

Senator PACKWOOD. Second, I apologize. I am going to leave this hearing early, but Senator Heinz will understand. He doesn't know this, but I have a son at Penn State, who is a senior this year, and it is their Homecoming Weekend.

I am going to be up there by 6:00 tonight, and I will pass along your regards to all that 80,000 in that stadium.

Senator HEINZ. Who are they playing?

Senator PACKWOOD. Alabama.

Senator HEINZ. I am for Penn State. If they were playing Pitt, it would be a different choice. [Laughter.]

Senator PACKWOOD. As Senator Heinz, Senator Rockefeller and the others know, I have never been a fan of the voluntary restraints. Not only do they run counter to my normal free-market principles—unless you were talking about something with which we were in short supply in this country—because of their adverse effect on consumers.

Senator HEINZ. Like timber.

Senator PACKWOOD. Like timber, that's right. We are short of timber in this country.

I realize the VRA's were put in to protect the steel industry, and I think from the steel industry's standpoint they have worked pretty good.

Interestingly, in my State I have two steel companies of some consequence, nothing in comparison to what the other members have here, one of which by and large likes the restraints and one of which doesn't. And they have about an equal number of employees. I know both of the owners of the companies well; it was one of those interesting situations where, whichever way you went, you could please one but not both.

But I have a lot more companies like Curtis Restaurant Supply in Eugene. They are an Oregon manufacturer of kitchen countertops and kitchen equipment, and they use an immense amount of stainless steel. Since the VRA's have been in effect, their prices have gone up 75 percent, and from time to time they have contacted me and complained about shortages. They could not get what they wanted.

So there is another side to this beside just the manufacturing side. Frankly, in Oregon I have a lot more companies that use steel in one form or another than make it. So I had misgivings about it, and when Senator Heinz, Senator Rockefeller and I met with the President, I think I was the one who said I could support an extension of the VRA's if it was not for more than a week. The President did not heed my advice, but he came out with almost a Solomon-like decision which allows all of us to be on this bill. I think it will pass without problems, and we will wait to see what happens under it.

But I will say that, for many manufacturers in Oregon, the restraints have had an adverse effect or at least, let us put it this way, while the restraints have been in effect, the price of steel that they use has gone up substantially, and the shortages have been more frequent. Whether that is because of the VRA's or not, they think it is. I am inclined to think it is. But for the next few years we will work it out, wait it out, and see what happens.

With that, Senator, I am off.

Senator BAUCUS. Thank you very much. Good luck.

Senator PACKWOOD. Thank you.

Senator BAUCUS. Now we come to the hearing. [Laughter.]

We have Deputy USTR Linn Williams with us, as well as the Assistant Secretary for Commerce, Eric Garfinkel.

Ambassador Williams, why don't you proceed first?

STATEMENT OF HON. S. LINN WILLIAMS, DEPUTY U.S. TRADE REPRESENTATIVE

Ambassador WILLIAMS. Thank you, Mr. Chairman.

The introductory statements illustrate the issue and its importance and also the necessity of balancing the interests of both producers and users in a steel program, and that is exactly what the President's program has attempted to do.

As Senator Rockefeller pointed out, in country after country, governments have sought to prop up ailing companies by raising barriers and providing trade-distorting subsidies, and the result has been an economic drain on treasuries and the transfer of their structural adjustment problems to us.

The level of subsidization worldwide has declined, however, since 1986, as more countries have realized the debilitating effects of subsidies. This, together with a generally improved business climate for the steel sector, created favorable environments for the efforts we have undertaken over the past 2 to 3 months. These favorable conditions could change, however, and the President's steel program aims to stop this pernicious cycle and to help put the world steel industry on a rational economic footing.

The U.S. steel industry has responded effectively during this period, and their efforts are bearing fruit. As but two examples: the United States is now an exporter of steel, which has not been the case for many years; and the United States is acknowledged to be the best producer of certain kinds of high quality value-added steel. It is certainly one of the world's low-cost producers now in many steel products.

The President's program, announced on July 25, had several elements to it: The first is the extension of the VRA's for 2½ years, after which the VRA's are to terminate. The second is that the VRA program, as extended, would be a liberalized program, subject to an overall import penetration rate of 18.4 percent—the 1988 level. And finally, an international consensus, leverage for which could be provided by an additional 1-percent import penetration per year during that 2½-year period.

The consensus is intended to address, on a multilateral basis, the special problems that the steel industry faces, particularly in the area of subsidies but also in the area of market access.

We decided early on, Mr. Chairman, to take out the VRA's and the international consensus together. That was in large measure for philosophical reasons, as you mentioned in your introductory remarks; we do view this as a liberalization program and not simply as an extension of restrictions. Therefore, both of those agreements were negotiated at the same time.

The international consensus has three major elements to it. One is reduction of subsidies; the second is improvement of market access; and, finally, an effective dispute-resolution provision.

With respect to the VRA's, we discussed at the beginning with the industry and others that our intention was to liberalize the

program and, among other things, to redistribute quotas to the extent we could from non-users to users, and to seek increases in certain product categories, but at the same time to seek decreases in other product categories that were especially hard hit and remained hard hit by the steel conditions.

We have completed negotiations with many countries for the international consensus. Other countries have shown interest in the international consensus, including some non-VRA countries, which we shall follow up beginning in mid-November and continuing through the GATT round.

All of the international consensus texts are a bit different, since they have been negotiated on a bilateral basis, but they do contain the elements that I indicated to you before on subsidies, market access, and dispute resolution.

By and large, the duration of those agreements will give us a sufficient amount of time, between the end of the VRA period and the end of the GATT round, to evaluate where we stand at the end of the GATT round and see if we need to take additional efforts for a multinational consensus outside the GATT round.

The consensus is an extremely significant document. The only multilateral agreements in effect now limiting subsidies are ones that are inadequate, in our judgment, to address the problems of many industries, including steel. Among other things, they do not address domestic subsidies at all.

To our knowledge, the international consensus agreements that we have negotiated with these various countries represent the first time that any country has ever agreed with any other country to limit its domestic subsidies. This is a major step forward, and, contrary to the position that some have taken, we think a major advantage to us in the upcoming GATT round.

My colleague Mr. Garfinkel will be able to talk with greater expertise on questions raised by Senator Heinz about countervailing duty; but I should say, from our standpoint, that we do not consider the definition of subsidies that we have negotiated to be at all a compromise on negotiations in the Subsidies Code. To the contrary, we consider it a major step forward, for reasons I have mentioned.

In addition, we consider the dispute resolution provision we have negotiated to be an improvement on GATT panels; among other things, the tracks that we have negotiated are more effective and faster. So, we are pleased, quite pleased, with the negotiations that we have been able to complete or come close to completing on the international consensus.

We support the legislation, Mr. Chairman, and we ask that the legislation be passed without amendment or change.

Senator BAUCUS. Thank you very much, Mr. Ambassador.

Mr. Secretary?

[The prepared statement of Ambassador Williams appears in the appendix.]

STATEMENT OF HON. ERIC I. GARFINKEL, ASSISTANT SECRETARY, IMPORT ADMINISTRATION, U.S. COMMERCE DEPARTMENT

Secretary GARFINKEL. Thank you.

Mr. Chairman, I also want to compliment the committee for holding this hearing. It think it is a useful opportunity for us to shed some light on our activities over the last few months.

I wanted to talk about a couple of things in particular. First, the role that Commerce will have in implementing the VRA's and in monitoring the consensus, as well as how this will relate to our countervail practice and our Uruguay Round position on subsidies.

We are currently in the process of setting up a new monitoring system to review commitments made under the international consensus, and we have revised short-supply procedures to make them more transparent and timely.

With regard to the international consensus, we believe that the bilateral understandings will provide producers with a new way of dealing with trade-distorting practices, in addition to the traditional remedies available under U.S. countervailing duty law.

I like to refer to the consensus as "U.S. Trade Law-Plus." There is the ability to use this enforcement mechanism on a much faster basis than countervail to address subsidies problems. As you know, under our countervail procedures it takes as long as 7 months to get a finding. Under this particular provision, in egregious cases we can move forward and get an enforcement decision in 35 days, and at the longest, 90 days. So we see this as an added element to our current countervailing duty procedures.

As I mentioned, this fast-track procedure will give us some added benefits but will in no way affect the way we investigate, interpret, conduct, enforce, or review any case under our anti-dumping and countervailing duty statues. Moreover, the consensus agreements will not generate any binational understandings or rulings which will establish a precedent which we will follow in the Department in the anti-dumping and countervailing duty area. And finally, the framework agreements will not affect producers in non-signatory countries.

Let me further underscore that the consensus agreements will not prejudice the positions we have taken or will be taking in the Uruguay Round on subsidies, dumping, or market access. Quite to the contrary, in the Uruguay Round the administration is seeking to strengthen our anti-dumping and countervailing duty laws.

When we undertook the consensus initiative, we believed we could make progress with an initiative that did not, at least at first, depend on ongoing negotiations in the GATT. Now, as Ambassador Williams mentioned, we are looking for ways to make these bilateral steel agreements multilateral, and we will be working through the Subsidies Code negotiations in that regard.

We are counting on consensus signatories to follow up their commitments to ensure that we will build on these understandings and establish an effective discipline for steel by the end of the Uruguay Round.

In the final analysis, we believe that the extent we can liberalize global steel markets depends on our progress in eliminating trade-distorting barriers, and if we don't attack the problem at the root, which is the subsidies and the market-access problems themselves, we will never see real steel trade liberalization. The anti-dumping cases by themselves cannot get at the root of the problem, insofar as what these laws do is offset the subsidy or the distortion, but

they don't force countries to actually eliminate the practice, and that is what we are hoping to do through these consensus agreements.

Now I would like to turn briefly to what we are doing in the short-supply area.

Clearly, we sought to balance the needs of both consumers and producers, and we are moving, I think, in the direction that we have in the past few years in the anti-dumping and countervailing duty area, and that is towards objective, fair, and juridical standards for treatment of applicants for short supply.

The revisions we have put forward, which are codified in this legislation and which were proposed by Secretary Mosbacher, provide for a 24-hour turnaround time on whether a petition contains sufficient information; will make decisions within 30 days, which is a major improvement over a prior practice, and will have a 15-day fast-track procedure where it is warranted; will also determinations based on a record maintained in the official file; will require certification of all information submitted; and we will publish our determinations in the Federal Register and hold disclosure meetings to explain decisions, if requested to do so by the parties.

As I mentioned, we will have a 15-day fast-track procedure. We will use this in cases where capacity utilization has reached 90 percent or more during a previous representative period, and will also use the 15-day fast track where we determine that the product is not produced domestically or where we have granted short-supply requests for two preceding successive years.

There will also be a rebuttal presumption in the 15-day fast-track cases that indeed a short-supply situation exists, and then respondents will be able to come in and disprove that presumption if they indeed can supply the product.

We have also done a couple of other things: We have installed an 800 number so that both petitioners and respondents can get quick information as to our short-supply decision process, and in general we are doing everything we can to make it easier for companies that need steel to obtain it.

Let me join my colleague Ambassador Williams in thanking you for moving forward quickly on this bill and urging that it be moved forward without amendment as soon as possible.

Thank you, Mr. Chairman.

[The prepared statement of Secretary Garfinkel appears in the appendix.]

Senator BAUCUS. Thank you very much, gentlemen. It is important, frankly, that both of your reaffirm the administration's position that the House-passed bill be passed by this body, unamended.

Ambassador Williams, which countries are the worst offenders as you are working toward the VRA? That is, which companies dc we have to spend more time in developing a VRA with? The worse offenders in the sense of subsidizing, "dumping," if you will.

Ambassador WILLIAMS. It is awfully hard to say, Senator. There are a number of countries whose companies have engaged in dumping practices over the years. There were very few, if any, cases actually filed this time around, by contrast to 5 years ago; so I couldn't give you an accurate estimate on what the cases were this time.

Senator BAUCUS. Well, just generally.

Ambassador WILLIAMS. The largest subsidizers, historically, have probably been the European Community, Brazil, and Mexico, among our major trading partners. In the last few years, though, as I mentioned, the level of subsidies has decreased in all of those countries, particularly so in the European Community and in Mexico. So it depends on your historical frame of reference.

Senator BAUCUS. How did you come up with 2½ years?

Ambassador WILLIAMS. As Senator Rockefeller mentioned, there were a number of proposals around at the time that the decision was made: One for extending for 5 years, and several, frankly, for dropping the program immediately. I am not saying that the President split the difference, but I think, among a range of, let us say, somewhere between 2 years and 4 years, he picked a time in which he thought that the U.S. steel companies would be able to progress gradually to a point where the program could be phased out, and he believed that that would give us enough time to complete our negotiations for a consensus.

Senator BAUCUS. Ambassador Garfinkel, I represent a lot of farm implement dealers. As you know, that equipment is a bit costly for a lot of farmers. I heard you go through the Department's short-supply provisions and attempts to implement. What can you tell us reassure us that those short deadlines in fact are going to be upheld?

Secretary GARFINKEL. Well, in the first instance, it was Secretary Mosbacher himself who came in and instructed me to immediately move to a 30-day fast-track procedure for all cases, and then we came up with this additional 15-day procedure for the cases I identified—high-capacity utilization. I am personally going to be involved in all of these short-supply decisions, and you have my word that we will meet our deadlines.

Senator BAUCUS. All right. Because the fact is, there may be some applications to the Department; and if there are, and if I am aware of them, I, frankly, might just drop you a note or call to follow up on it.

I would like to move a little more now to how well we as a country can handle unfair trade practices by other countries with respect to steel with current law—that is, with anti-dumping and countervailing duty law.

As I mentioned earlier, as we know, the VRA is a bit of a broad blunt instrument; nevertheless, at this point it is necessary. But if we, say, did not have the VRA, to what degree could the Department handle all of these cases that would probably arise? Could you do it? Would it be with some difficulty? With great difficulty? Just for a few minutes tell us what we would be running up against if we were to face that prospect.

Secretary GARFINKEL. I think we could handle the cases. There would be a lot of them. We have limited resources. Right now, case filings are kind of light. I think if we hadn't had VRA's and instead we got cases, we would be in an excellent position to meet all of our deadlines. In any circumstance, I can assure the committee that we would meet our deadlines.

I think we have had a lot of experience in the steel area; in many cases we know what the subsidy programs look like, because

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we have investigated them for a number of years. So I think we have a track record, and we are up the learning curve, so we could move fairly quickly.

Senator BAUCUS. Well then, why do we have the VRA, if you can handle the problems under our current trade laws?

Secretary GARFINKEL. Well, that is a decision that the President made. I think he got different advice from all sorts of folks, both on The Hill and in the business community. And as Ambassador Williams said, he made the decision on his own by looking at the merits. That is about all I can say.

Senator BAUCUS. During your confirmation hearing, Mr. Garfinkel, I mentioned to you a situation in my State of Montana where some pipe fires were hit by dumping duties on pipe from Canada, even though the producer they buy from was never found to be guilty of dumping. As you know, there have been some margins rebated, but the problems is still there; he is still paying the duty. I wonder if you could further check into that for me.

Secretary GARFINKEL. Yes. We are very much aware of that problem, and we are working expeditiously to try to resolve that scope issue. It is a question of determining who is the end user of the product. It is not always easy to get the data we need, but we are moving very quickly, and I am aware of your concern, sir.

Senator BAUCUS. Thank you.

Senator Rockefeller?

Senator ROCKEFELLER. Thank you, Mr. Chairman.

Linn, as you know very well, one of my main concerns has been in the matter of semifinished steel in any VRA program, and obviously, the new one. The President recognized that, and I am very grateful for that, by continuing its inclusion.

In the first VRA program there was an import limit of less than 2 million tons of semifinished steel a year. What can the committee expect on semifinished imports with respect to the new agreements?

Ambassador WILLIAMS. I think you can expect an increase, Senator, again without specifying necessarily what it is, because we are still engaged in some negotiations. The actual level of import penetration of semifinished steel in 1988 exceeded the quota level, the restriction level, under the old VRA. That additional semifinished steel was allowed in under the old short supply.

Given the interests in this case of other steel companies—this is not necessarily a producer-user issue; this is a producer-producer issue—we felt that it was necessary, as a minimum, for us to consider an initial import penetration rate of the old semifinished actual import level, and, given the needs of that group of producers who use semifinished steel, perhaps even consider a somewhat higher number.

We have, again, tried very hard to balance the interests of a large segment of American industry. Just to illustrate the complications, this, as I say, is not a producer-user issue; it is a producer-producer issue.

Senator ROCKEFELLER. Linn, let me ask you another question: Typically, VRA agreements in the past have contained flexibility provisions to allow shifts between categories, and that tends to have ranged in the 5 to 8 percent shift level. Is this expected to

continue? Would there be any rationale for allowing shifts much greater than that into one single category?

Ambassador WILLIAMS. There will continue to be flexibility provisions in the agreements, and the percentages will vary from country to country. And yes, Senator, I could envision one or more situations in which it would be appropriate for us to consider a degree of flexibility even higher than 8 percent in a particular situation, as, for example, where the flexibility was moving from a higher value-added product to a lower value-added product. There would be producers who would benefit and there would be producers who would be hurt; but the overall balance for the economy, we think, and for the program would be positive. Where that might occur, we might look for increased flexibility.

Senator ROCKEFELLER. Do you have an estimation for us when the overall negotiations, or, rather, I should say all negotiations, will be finished?

Ambassador WILLIAMS. We hope, Senator—but let me emphasize the verb "hope"—that we will complete our negotiations within the next week to 10 days. Obviously that is not entirely within our control, but we have in some cases some truly minor issues that we have no doubt will be resolved quickly; in some cases the issues are somewhat larger, but we believe we are within striking distance.

Senator ROCKEFELLER. Do the steel consensus agreements affect, in your judgment, in any way, the operation of existing U.S. trade laws? And specifically, do they affect the right of U.S. petitioners to pursue dumping or countervailing duty cases, and the willingness of the U.S. administration to take up any such cases?

Ambassador WILLIAMS. No.

Senator ROCKEFELLER. Would you agree that, legally, U.S. trade laws take precedence over the consensus agreements?

Ambassador WILLIAMS. I am not sure how to put that into context. As a general proposition, I would say Yes. Perhaps if you could give me an idea where you are headed, I could give you a better answer.

Senator ROCKEFELLER. You have answered just as I hoped.

Senator BAUCUS. Stop there. Quit while you are ahead. [Laughter.]

Senator ROCKEFELLER. Eric, let me just say one thing to you. Again, as I said to you privately before—and I say this also to Ambassador Williams, and I think he knows of my very deep respect for him—I think both you and the Ambassador have been absolutely first class on all of this. As I told you before, Secretary Mosbacher has been first class. I always felt, and I am sure that John Heinz feels the same way, that he was really critical to the extension of this. And on the whole short-supply question, I think you and he were really helpful.

I have more questions. I am not sure if I will get another chance, but that will depend upon the indulgence of the Chairman.

Thank you, Mr. Chairman.

Senator BAUCUS. Thank you, Senator.

Senator Heinz?

Senator HEINZ. Mr. Chairman, thank you.

I want to echo what Senator Rockefeller just said about the work of Secretary Mosbacher in bringing about extension of the VRA's.

I want to take up where Jay Rockefeller left off in one specific. This is to both of you. Is it your position that the arbitration procedures that are being established in the agreements will not in any way either delay or modify the operation of U.S. trade law?

Ambassador WILLIAMS. Yes.

Secretary GARFINKEL. That is correct.

Senator HEINZ. Eric, let me ask you this: Since the President has made it clear that the Department of Commerce will continue rigorously to enforce the laws against "injurious dumping and subsidization"—that is a quotation—after March 1992, am I right in believing that the U.S. steel industry can depend upon having U.S. trade laws, at that time, that are just as strong or stronger than the ones we have now?

Secretary GARFINKEL. Yes, Senator. I am involved in the Uruguay Round negotiations on both subsidies and dumping along with the USTR team, and I can tell you that we are seeking to strengthen both disciplines, and I think the steel industry can count on a strong anti-dumping and countervailing duty law.

Senator HEINZ. Do you think you can state that you are not only not going to propose anything that is going to weaken our trade laws but that you won't accept anything that will weaken our trade laws?

Secretary GARFINKEL. Yes, Senator.

Senator HEINZ. As you gathered from my opening statement, I am concerned about the question of precedents here. I understand your position, which you have stated, that they are not to be regarded as precedents for any other negotiations. Am I correct in my understanding?

Ambassador WILLIAMS. No, Senator. I was making a different point, that I think the negotiations we have had on a consensus are useful precedents for negotiations on subsidies in the future. I think if you look at, for example, what other industries have: other industries have U.S. trade laws—the steel industry has U.S. trade laws plus something that is far better than the Subsidies Code—and we think a very good step towards further negotiations.

Senator HEINZ. What you are saying is if you have got a double lock on the door, that is a plus.

Ambassador WILLIAMS. Right, for that industry.

Senator HEINZ. My area of concern is not that, it is what would happen if the arbitration procedures in these agreements became a starting point or a model for negotiations in the Uruguay Round.

For example, in the so-called "red" category, the prohibited category, I understand there is some thinking on the part of our trading partners that the way you enforce in the red category is through some kind of arbitration procedure. Now, in yellow, we can use our own trade laws. So from an American point of view, going from yellow to red in enforcement, from the use of our laws to arbitration, seems like a weakening and in my judgment is a weakening of our trade laws. Are we establishing that kind of precedent here?

Ambassador WILLIAMS. No, I wouldn't call that establishing a precedent, Senator. I think where I would see a useful precedent being established is in contrasting the arbitration procedure we

have now to the GATT procedure that exists now. That is the only precedent I would see.

Senator HEINZ. Eric, do you have a comment on this?

Secretary GARFINKEL. I was going to say that I am familiar with some of our initial drafts for the subsidies negotiations, and I can assure you that there will be nothing for a red light category that looks anything like an arbitration provision. In fact, we view red light subsidies as, per se, illegal and would hope to achieve a lower evidentiary standard than what is currently available under countervail.

Senator HEINZ. Let me follow up to get this on the record, because I think you are saying the right thing, and I think you mean it; but do you think it is in the interests of the United States to have an international body review the operation of U.S. trade cases or make decisions that modify the results of U.S. trade laws?

Secretary GARFINKEL. Let me say this: First of all, any countervail or dumping decision we make is reviewable under the current GATT provisions. We can be taken to the code, and we are being taken to both the dumping code and the subsidies and countervailing measures code with respect to decisions we have made.

So to some degree we don't have a choice. Obviously, as an administrator of the law, I would rather have my decisions stand than have them subject to review; but they are currently subject to review, both in the courts and in Geneva.

Senator HEINZ. Linn, let me ask you: The 1-percent bonus as originally stipulated by the President was to be given to those who undertake "and abide by"—emphasis added on the words "and abide by"—subsidies discipline. My understanding is that the 1-percent bonus has already been distributed. How do you square that with the stated policy purpose of only giving it to those who "abide by" their commitments?

Ambassador WILLIAMS. I shouldn't either confirm or deny what has been distributed; but, as a substantive answer to your question on the bonus, two responses: One is that in some instances we have negotiated or are negotiating tonnage availability only when we see the results—that is, something actually being implemented, not just committed or promised. For those situations where we have made tonnage available for a commitment, it has been based on two factors: our perception that the country making the commitment has demonstrated an ability and a willingness to abide by it, and our knowledge that we have redress under the dispute resolution provision if it does not.

Senator HEINZ. My time has expired; but, if I have time, I would like to follow that up.

Senator BAUCUS. We will have a second round.

Just quickly, Mr. Williams, are you quite comfortable in believing that in 2½ years we will not have to extend the VRA? That is, with present provisions cash flow is plowed back into investment, and where employees have a certain percentage of cash flow for retraining, and other provisions, that the American steel industry can in fact at the end of 2½ years be competitive without a VRA?

Ambassador WILLIAMS. Yes.

Senator BAUCUS. Thank you.

Senator Rockefeller?

Senator ROCKEFELLER. Thank you, Mr. Chairman.

This is another question for you, Linn. Since passage of the 1988 trade bill, USTR has had the discretion to enforce the melted and poured provision of that particular Act.

As you know, the Congress included this authority because of our concern about surging imports from new, non-VRA suppliers, particularly in the pipe and tube area. If those imports surge again, will you use the authority provided to you under that 1988 Trade Act?

Ambassador WILLIAMS. Yes. We will undertake to do it in a GATT-consistent way by approaching the country in question to enter into a VRA. As you know, Senator, that situation did occur at one time. Before we were able to engage fully in negotiations with that country, the problem disappeared; but, should there be a surge again, we will do the same thing.

Senator ROCKEFELLER. My final question would be to Eric.

At the August 1, Ways and Means hearing, Secretary Mosbacher said that the Department "will vigorously enforce the anti-dumping and countervailing duty laws." Does that commitment countenance proposing changes which would weaken these laws as a result of multilateral or bilateral negotiations?

Secretary GARFINKEL. We have no plans to weaken the trade laws, Senator, and we will continue to vigorously enforce the laws we have.

Senator ROCKEFELLER. One final, also, Linn, to you: Our GATT proposal on agricultural subsidies is being denounced by EC and by Japan. That calls for a phase-out of export subsidies over 5 years. If the EC won't give up export subsidies for farmers, why do you think that they will adhere to agreements basically outlawing most steel subsidies immediately?

Ambassador WILLIAMS. Different industries, Senator. The EC has had in place since 1986 a directive against subsidies, not just export subsidies but domestic subsidies, in steel, which, frankly, is fairly far-reaching. It obviously does not have such a directive in place involving agriculture. The industry is different, the interest is different, the will is different. Economics can change anything; but from where we sit now, it looks to us as if the EC has already demonstrated a very different view to steel than it has to agriculture.

Senator ROCKEFELLER. Thank you, and thank you, Mr. Chairman.

Senator BAUCUS. Thank you, Senator.

Senator Heinz?

Senator HEINZ. Mr. Chairman, I will try to be brief.

Just following up on the "abide by" question, most of us think that the term "abide by" suggests that there is a test which is measured against performance over a period of time. If the administration should adopt an other than plain-language interpretation of a word like "abide by," the problem we get into up here is, we begin not to believe the good will of people who play those kinds of games.

I don't quite understand what you mean by the term that you have found, countries that have abided by these commitments, at least hypothetically. Could you explain your position a little bit better, so I understand it?

Ambassador WILLIAMS. Yes. And we certainly don't consider it a "game," Senator; I think it is a reasonable interpretation and a reasonable policy.

There are certain situations in which countries may undertake to do acts which they have not done before and, by virtue of past performance, we believe we need to see actual implementation or results in place before we make tonnage available. I don't think it is a game or unreasonable for a government to look at other situations and conclude that the government that has made a commitment has demonstrated in the past its ability and its willingness to abide by the commitment, and we know we have the ability to enforce the agreement if they don't.

Looking at it another way, suppose we waited until we saw a country actually implement a specific plan, and waited a few months to see how it performed. We could make steel available on Wednesday and on Thursday they could violate the commitment. We would still have to go after them with the enforcement provision.

Senator HEINZ. You would, but at least you would have gotten good performance for the interim period of time.

Ambassador WILLIAMS. But that is the judgment that one makes depending on the situation. Again, not as a game but as a sound policy matter, it seems that we do—and the Senate would, I think, in situations—look at past performance or current performance as a way of evaluating future performance.

Senator HEINZ. I don't want to get into a semantic argument, but if the term "abide by" has any meaning as you would use it, it would have to be qualified further; it would have to give evidence of being able to abide by. That is simply not what it says, even though that is what you are telling me it means.

Let me ask both of you, and tell me if I am right on this, regarding the Uruguay Round:

Is it or is it not true that other countries are pushing for arbitration or dispute settlement as the enforcement for red list items?

Let me start with Eric.

Secretary GARFINKEL. To be honest with you, I have not heard much support for an arbitration approach. We have talked a good deal about national countervail and rights in that area, and I don't think anybody is suggesting that countries should dispense with their unilateral right to take national measures.

There has been discussion about what approach we would take for dispute settlement, which is already effectively a panel exercise; but most of the discussion is centered on other sorts of issues.

Senator HEINZ. But with respect to red list items, nobody is talking about some kind of dispute settlement?

Secretary GARFINKEL. There may be a few countries that have talked about it, but it certainly isn't the majority of what I am hearing in Geneva.

Senator HEINZ. Is that your experience, too, Linn?

Ambassador WILLIAMS. Yes.

Senator HEINZ. In your judgment, what are the implications for other industries of the subsidies that you are effectively permitting? The ones, I understand, that are being permitted subsidies here, for example, with respect to at least one group of countries, is

research and development, environmental subsidies, worker adjustment subsidies, and plant closure subsidies. What precedent are we setting there?

Ambassador WILLIAMS. Again, without commenting on a particular list, since some of those remain under negotiation, and perhaps we should discuss thoroughly with you in a private or executive session, we think that, by and large, if there is an effect, it would be a beneficial one. Some of the items that you mentioned are ones that we do not, for example, countervail. Others are ones where either our Federal Government or our State Governments have an interest in preserving a particular program. That is true with the steel industry; it may be true with other industries as well. And while I think reasonable people can have different views as to overall policy, we are satisfied that the policy approach that we have taken with this consensus is a sound one.

Senator HEINZ. Thank you very much. My time has expired.

Senator BAUCUS. Thank you, Senator.

Thank you, gentlemen. I do have one question from Senator Boren. It goes to the negotiations with Mexico.

Senator Boren's concern is that the negotiations with Mexico seem to indicate a high level of steel imports to the United States, especially compared with previous years. The question is: In exchange for these concessions made by the United States to Mexico, will Mexico reciprocate by making concessions in their tariffs and their ad valorem tax?

Ambassador WILLIAMS. Yes. Two answers: First, there have already been substantial changes, including reductions in tariffs, in Mexico by the Salinas Government. Second, there will be additional undertakings, as well.

Senator BAUCUS. Thank you very much, gentlemen, for your time and attention today. We appreciate your being here.

Ambassador WILLIAMS. Thank you.

Secretary GARFINKEL. Thank you.

Senator BAUCUS. Thank you.

Our next witnesses are a panel including Mr. Frank Luerssen, chairman of the American Iron and Steel Institute and chairman and CEO of Inland Steel Industries, from Chicago; Mr. Jon E. Jenson, the president of Precision Metalforming Association, testifying on behalf of the Coalition of American Steel Using Manufacturers, from Richmond Heights, OH; and Mr. Lynn R. Williams, president of the United Steelworkers of America, from Pittsburgh, PA.

Mr. Luerssen, I understand you are accompanied by Mr. Thomas Graham.

Mr. LUERSSEN. I am, Mr. Chairman. Thank you very much.

Senator BAUCUS. You bet.

STATEMENT OF FRANK W. LUERSSEN, CHAIRMAN, AMERICAN IRON AND STEEL INSTITUTE, AND CHAIRMAN AND CHIEF EXECUTIVE OFFICER, INLAND STEEL INDUSTRIES, INC., CHICAGO IL, ACCOMPANIED BY THOMAS C. GRAHAM, PRESIDENT, USS, A DIVISION OF USX CORP., AND VICE CHAIRMAN, AISI, PITTSBURGH, PA

Mr. LUERSSEN. We appreciate this opportunity to appear before your committee. My testimony is presented on behalf of the domestic member companies of the AISI. Mr. Graham will have some brief remarks after I have concluded.

The passage of H.R. 3275 will limit but not eliminate injury to our industry that may be caused by unfairly traded imports for the period that the legislation would be in force.

Furthermore, it will provide important Congressional support for an oversight of negotiations—and I quote from the bill—"to seek an international consensus regarding steel trade that provides for (1) strong disciplines over trade-distorting government subsidies; (2) the lowering of trade barriers so as to ensure market access; and (3) enforcement measures to deal with violations of consensus obligations."

Since many of our industry's problems over the past three decades have been caused by foreign government subsidies to their steel industries and by restrictions on our access to foreign markets, we are most supportive of this initiative and have pledged to do whatever we can to support efforts to achieve a fair and enforceable international consensus on steel.

Mr. Chairman, the House-approved bill before you is a sound and reasonable basis, both technically and in terms of steel trade policy, for giving the necessary authority to the administration to implement the President's program.

First, as I am sure you know, the licensing provisions of the previous VRA program and the other rigorous enforcement features remain in this legislation.

Second, as has been said before, it improves the short-supply provisions of the previous VRA program.

Third, it recognizes the Government's longer-term goal of moving world steel trade in the direction of a market-driven trade system, the first step toward which is a series of bilateral consensus agreements providing greater discipline over government subsidies and more open markets, and we hope that some of the probing that Senator Heinz has done recently in this hearing has had some effect in pulling in important elements to those consensus agreements.

Fourth, it provides for continuance of the process established under the previous VRA program, by which major U.S. steel producers continue to reinvest their net cash flow back into modernization of their steel operations.

Taken as a whole, these provisions in the House bill constitute an appropriate basis for implementing the Steel Trade Liberalization Program announced by President Bush last July, and I urge that the legislation be approved.

Extension of the previous VRA program for a further 5 years was, as you know, the domestic industry's preferred policy choice.

This position was shared by a majority of the Senators who cosponsored earlier legislation to extend the program for the full 5 years.

The administration's new program is cast differently in several important respects. The 2½-year term has been mentioned adequately. The target import penetration rate is set at 18.4 percent for all steel mill products from covered countries, rather than the original program's 18.5 percent for finished steel mill products from all countries.

I might point out at this point that the anticipation is that were foreign sources to use the full extent of the new VRA program, the import penetration could rise to 27 percent or higher.

An additional bonus 1-percentage point annual increase is provided for VRA signatories who will support the administration's proposal for an international steel consensus by signing those bilateral consensus agreements which have been discussed earlier, and by supporting U.S. efforts to multilateralize these agreements in the Uruguay Round.

The program emphasizes that after March 31, 1992, any unfair steel trade problems the industry may experience may be remedied only by recourse to U.S. trade laws.

These features of the program go farther in the direction of liberalization than many of us would have wished, given the industry's circumstances. But we do support the new program, and we urge prompt passage of H.R. 3275 so that implementation can go forward without delay.

I would but add one important comment, on the point that the industry must rely on U.S. trade laws as the only available remedy for steel trade problems in the future. That means that those laws, the anti-dumping and countervailing duty laws, must be preserved intact and, where appropriate, strengthened.

We currently are hearing of attacks on our trade laws from a number of sources—domestic interests who see advantages for themselves in the importation of dumped and subsidized merchandise, and foreign governments who, in the current Uruguay Round of trade negotiations, are seeking to weaken our trade laws. These attacks on U.S. laws must be resisted with all the energy we can muster. We ask for your support in that regard, and indeed the full support of our government.

Thank you, Mr. Chairman. I will turn it over to Mr. Graham for a few remarks.

Senator BAUCUS. All right.

Mr. GRAHAM. Thank you.

Mr. Chairman, members of the panel, I appear here in support of the legislation. As a company and as an industry, we think the VRA extension, although the term is disappointing to us, is appropriate. We think the short-supply provisions are real and necessary improvements, and we support that.

We do express continuing concern about the outcome of the international consensus, as it is called.

I have to preface everything that I say by acknowledging that I haven't seen the document. But if it is a secret, it is the poorest kept secret in the world; our foreign competitors know what is in it, and we hear dismaying things.

Although it will be argued that it isn't precedent-setting, our understanding is that certain subsidies, if they run to research and development, if they run to environmental compliance, if they run to steel company restructuring and worker benefits—that in fact those will be tolerated up to some threshold level. If in fact that constitutes a permanent long-term consensus to remove trade-distorting practices in global steel markets, I would have to suggest it is a disappointing start.

Having said that, we recommend the legislation.

Senator BAUCUS. Thank you very much.

Mr. Jenson?

[The prepared statement of Mr. Luerssen and Mr. Graham appears in the appendix.]

STATEMENT OF JON E. JENSON, PRESIDENT, PRECISION METALFORMING ASSOCIATION, TESTIFYING ON BEHALF OF THE COALITION OF AMERICAN STEEL USING MANUFACTURERS, RICHMOND HEIGHTS, OH

Mr. JENSON. Thank you, Mr. Chairman.

I am Jon Jenson, President of the Precision Metalforming Association. Our association comprises over 1,000 company members, most of them small businesses competing both domestically and abroad in the stamping industry.

I am testifying today on behalf of the Coalition of American Steel Using Manufacturers in support of the Steel Trade Liberalization Program Implementation Act.

Our coalition includes over 300 companies and industry associations who use over one-third of all the steel produced in the United States. We include American manufacturers of farm equipment, trucks, construction equipment, auto parts, hardware, industrial fasteners, valves, appliances, food equipment, drilling contractors, boiler manufacturers, tooling and machining manufacturers, and others.

These 300 companies share several things in common: First, we buy primarily American steel. We want a strong, healthy and competitive steel industry. We depend on it. But all of us have been hurt by steel VRA's. Simply put, we oppose VRA's because they have caused higher prices, shortages, delays, and lost sales which threaten America's manufacturing competitiveness at home and abroad.

Steel is not an isolated sector standing alone; on the contrary, steel is a critical component in many important U.S. industries represented by our coalition. Steel shortages and price increases hurt the competitiveness of steel using manufacturers and their employees. This in turn hurts the health of the U.S. economy as a whole.

The harm caused by VRA's has been confirmed by a number of recent reports. For example, the International Trade Commission found that the VRA program caused U.S. manufacturers to lose between $4 and $12 billion in sales. A recent independent study by AUS Consultants found that VRA's cost U.S. consumers over $3 billion per year.

We believe that the U.S. steel industry is ready for a phase-out of the VRA's because it is healthy, profitable, and no longer needs

protection. A General Accounting Office study released in July found that termination of quotas would have little immediate effect on the overall steel market, and that the steel industry has returned to normal levels of profitability.

For these reasons, we would have preferred that the VRA's had ended on September 30 as scheduled. Why, then, does our coalition support the President's program, when it extends the VRA's which have hurt us so significantly?

First, we believe it is a reasonable compromise which balances the interests of steel producers and steel users. The issue has been intensely debated; the administration listened to all sides and reached a difficult decision. As in all compromises, neither side is completely happy. But we think the result is fair and workable.

Second, the President's decision ends the VRA's in 2½ years, certainly and completely. This will restore a competitive steel market and will help U.S. steel using manufacturers compete.

We wish the deadline were sooner, because we may be hurt in the meantime; but in this compromise, we are willing to forego speed for certainty.

Third, we support the President's program because it is designed to ease the transition to an open market. It provides for 1-percent-per-year increases in quota to introduce greater competition in the market over the next 2½ years, and it liberalizes and streamlines the existing short-supply mechanism.

Finally, we support negotiations leading to an international consensus on fair steel trade. An arrangement that governs steel trade through the combination of a consensus and U.S. unfair trade laws will focus government action on the problem of unfair trade where it actually occurs and will help end the harm to American manufacturers caused by blanket steel protection.

Let me make a few comments about the consensus. We believe it must be clear that the consensus is independent of the termination of VRA's. With 7½ years of special protection, the steel industry has had a generous period of time in which to become competitive. Achievement of a consensus does not change the central fact that the significant costs of VRA's to American competitiveness greatly outweigh the benefits of continued protection for the steel industry.

In addition, we believe that the specific terms of the consensus should be left to the U.S. negotiators and should be realistic. It is not necessary for a consensus to eliminate all unfair trade, because the trade laws also will remain available. The combination of both will give the steel industry more tools for combatting unfair trade than are available to any other industry.

We also believe that the certainty that the VRA's will end and the assurance that unfair traders will be subject to the trade laws is the best leverage for achieving the consensus. The promise to unfair traders of a guaranteed market share and continued trade law immunity under the VRA's provides no incentive to end unfair practices.

While the new VRA's and the bilateral consensus agreements have not been finalized, based on our understanding of these talks we are generally pleased with the administration's efforts to balance the interests of steel users and steel producers, and for these same reasons we support H.R. 3275. We believe it provides appro-

priate legislative authority for the President to implement his steel program, and we urge its prompt enactment without amendment.

Senator BAUCUS. Thank you, Mr. Jenson.

Mr. Lynn Williams, you end it, just as Linn Williams began it.

Senator HEINZ. I object that we should have two people coming up here, testifying twice. You could be the same person. [Laughter.]

Mr. LYNN R. WILLIAMS. I am the senior one. [Laughter.]

[The prepared statement of Mr. Jenson appears in the appendix.]

STATEMENT OF LYNN R. WILLIAMS, PRESIDENT, UNITED STEELWORKERS OF AMERICA, PITTSBURGH, PA

Mr. LYNN R. WILLIAMS. Mr. Senator, we thank you very much for the opportunity for holding this hearing. I would like to thank Senators Rockefeller and Heinz for the outstanding work they have done with regard to these issues. The legislation before you reaches a new stage in the development of a national steel policy.

To a large extent, the issue of steel imports has been oversimplified into whether the steel industry restraint agreements negotiated in 1984 with most of our steel trading partners should be extended beyond their termination day of September 30, 1989.

Until the administration made a decision on the extension question and its duration, most of the debate argued the justification for the extension. A coalition of some steel users was organized in opposition to any renegotiations of the Steel VRA's. Fundamentally, their opposition centered upon the availability of imported steel at depressed prices, despite any violation of U.S. fair trade codes.

As a union, we realized that unfairly traded steel imports would ultimately lead to a further reduction in steel mill production and an erosion of steelworkers' standard of living. After the President's announcement, those arguments were put behind us.

The Steel Trade Liberalization Program is designed to address the problems which gave rise to the need for VRA's as a remedy. It is not just a relief-from-injury approach.

The enormity of the import penetrations in the pre-1984 period induced by unfair trade practices was such that remedial measures were necessary in order to stem the severe injury which was occurring. In an indirect way, the VRA's were intended to arrest the unfair practices themselves by limiting the amount of unfair steel imports which could enter our marketplace. Our trading partners, hopefully but unilaterally, were expected to realize that the U.S. market would no longer be an easy target for their steel export if produced and shipped under such trade-distortive practices. It was injury-originated in its objective. Directly, however, the VRA's responded only to the consequences of such practices. Steel could continue to be subsidized and dumped into our markets, but only a non-injurious amount could be exported.

The new VRA program, entailing only a 2½-year extension rather than the 5-year duration of the previous arrangements, is geared to address the practices directly. In other words, the new steel policy is designed to address the post-VRA period. The President's statement is explicit, and I quote:

"I am taking this step to permit the negotiation of an international consensus to remove unfair trade practices and to provide

more time for the industry to adjust and modernize, to restore free market forces to and end government interference in global trade in steel."

USWA affirms that the 1984–89 VRA's did meet their objectives: injurious steel imports have been rolled back; our trading partners have been sensitized to the lack of justification for continued subsidization of steel exports; and our own industry, relieved of unfair pricing pressure and market erosion, has been able to begin the modernization process.

As a result of this national steel policy, we are reaching a threshold point where a new direction in steel policy is warranted. Let me emphasize the word "threshold." The steel industry and its workers are still vulnerable to the negative consequences of past subsidies and presently existing unfair practices. Hence, there is a need for a continuation of the restraint program in order to hold at bay a reemergence of the negative consequences which we confronted in the early eighties, during which time we lost 47 million tons of capacity and 250,000-plus steelworkers' jobs.

Nevertheless, since we are at the threshold, it is necessary to focus also upon a steel trading system which is not dependent upon further VRA extensions or recourse to countervailing duties/dumping petitions. Beyond this threshold there is expected to be the so-called level playing field. This 1989–1992 extension of the VRA's is oriented, therefore, to an additional objective; namely, the negotiation of fair trade rules for steel, especially as they relate to disciplines over trade-distorting government subsidies and market-access barriers.

The President's program requires, therefore, complementary negotiation of an international consensus on fair trade in steel through both multilateral and bilateral agreements.

Shortly, we expect an announcement from the office of the USTR as to the status of those dual negotiations. Candidly, the USWA had sought a longer VRA extension than 2½ years, because we felt that the injurious consequences of the past trade flows could not be offset by a short-term program. Additionally, we are strongly uncertain about the prospects of a post-VRA international consensus to be effectuated within that time frame.

It is our understanding that any bilateral consensus agreements on steel trade practices negotiated at this time, with the quantitative restraints arrangements, expire at the end of the two and a half year period. Without the continuation of such agreed-upon disciplines and enforcement mechanism concerning trade-distortive practices in the post-VRA period, we are fearful, not only that the practices will not have been eradicated but also that we will be revisited by the severity of the injurious impact.

But for now, the President's program provides the immediate advantage of a 2½-year relief period. During that period, the legislation requires and the USWA strongly support a continuation of a statutory obligation that the steel industry commit its resources to modernization of the industry and, most importantly, to the retraining of dislocated workers.

If I may, I wish to emphasize that the retraining requirement is in addition to any other program engaged by the major steel companies for an upgrading of active workers. Beyond a doubt, the

modernization of the steel industry includes not only investment in its capital stock but also in its human resources.

Recently, the Union and steel firms agreed, through collective bargaining, to embark upon a joint Career Development Program to enhance workforce quality. The global market competition demands no less. But there remains an obligation to those workers who are permanently severed from the industry. It is those workers to whom the legislation requires a readjustment commitment as a condition for a continued enforcement of the VRA program. The legislation contains specific language dealing with the annual report on the implementation of this commitment whereby fuller disclosure of retraining expenditures for displaced workers will be displayed.

The bill also reinforces the short-supply procedure so as to reassure domestic steel users that they will not be denied access to steel during periods of high-capacity utilization and tight-market conditions. The USWA endorses the clarifying language. Our intent is to prevent the import of unfair steel when our domestic mills and its workers have been idled. But if shortages occur, our domestic steel users should have adequate access to off-shore supplies, and the VRA limitations should be waived under the administrative procedures described.

Senator BAUCUS. I am going to have to ask you to summarize as best you can, Lynn, in fairness to the other witnesses.

Mr. LYNN R. WILLIAMS. I can't sneak in another page?

Senator BAUCUS. You've got to boil it down as best you can.

Mr. LYNN R. WILLIAMS. Well, let me give the final paragraph:

It will be the task of the government in both multilateral and bilateral forums to develop an international consensus. The legislation will give the government the authority to enforce the VRA's in the interim and will give the Congress the oversight opportunity to monitor the reality of fair steel trade in the post-VRA period beginning April 1992.

USWA urges enactment of the legislation originally introduced by Senators Rockefeller and Heinz, cosponsored by 60 Senators and subsequently refined after the President's announcement, as a "remedial measure" against present endangerment and as a "down payment" for future stable trade relationships.

Thank you.

[The prepared statement of Mr. Lynn R. Williams appears in the appendix.]

Senator BAUCUS. Thank you very much.

I want to begin by noting the agreement, the compromise here, among the groups represented here at the table, the industry, employees, and the users. It is somewhat remarkable. In fact, I believe very strongly that in this country we have to have more agreements like this if we are going to solve some of our nation's economic problems.

I take my hat off to all of you. I very much appreciate your efforts to come together and work out a compromise. I know it has been difficult for some of you, but you have done it, nevertheless, and I commend you for it.

I hope, though, that this means all of the interested parties will work very, very hard during this 2½ years so that we don't have to

come back here 2½ years later with the prospect of potentially extending another VRA. I think the writing is on the wall that the string has about run out. You know, 2½ years is about it.

Now, it is clear, or at least it is possible, that unforeseen circumstances may occur which would cause us to extend the VRA. But it seems to me, barring all of that, we owe it to ourselves to make this agreement work, so that during this 2½-year period we are not back asking for another extension.

Mr. LUERSSEN. Mr. Chairman, the American Iron and Steel Institute and its member companies have pledged full support to both the USTR and the Commerce Department in carrying out this program.

Senator BAUCUS. Thank you.

I have no questions. Senator Rockefeller?

Senator ROCKEFELLER. Mr. Chairman, thank you.

Frank, the Chairman's question in a sense was, "Now, it is up to you guys to make it work," and my general understanding was that you had all done a pretty good job in doing everything you could in the way of wage decreases, flexibilities, modernization, profit-loss, that you had done everything you could, and that the problem wasn't you guys working it out, the problem was dumping and unfair trade practices on the part of other countries. Or do I read the situation wrongly?

Mr. LUERSSEN. No, I believe we have done everything within our economic power, and we have had the cooperation of the United Steelworkers of America over this period of time.

The concern we have, going forward, is in the negotiation of the multilateral agreements: will those really be agreements that we can live with over the long haul? And will there in fact be moves on the part of many in our society, both here and overseas, to weaken our trade laws at this particular time? So, those continue to be our concerns, and we will continue to work with the administration and bring to your attention as well any deterioration that we see in the objectives that were stated earlier here today by the Commerce Department and USTR.

Senator ROCKEFELLER. I mentioned in my opening statement that the picture painted of the steel industry as just rolling in profits is not necessarily true. Could you elaborate a little bit?

Mr. LUERSSEN. We have just been through a period, and are now over the peak of world steel demand, in which you will find from results last year in the U.S. record steel profits, and this year I think you will see in other parts of the world record steel profits, because demand overseas has historically, and in this case also, historically, has followed demand in the United States. But demand in the United States currently is falling off, prices are in decline, and the same is happening in Europe today.

So you are going to see a much more difficult environment for steel this year and next year, and if you look at the reports of profits for the third quarter, it is amply evident that costs are pressing against us and that we are experience price declines.

So our margins are in decline at this point, and our cash flows that we can put back into modernization will be less next year than they have been in the past several years.

Senator ROCKEFELLER. Is it not also true that there may be up to a 200 million ton surplus on a worldwide basis in steel?

Mr. LUERSSEN. We think that is close to being correct, at least 150 million tons.

Senator ROCKEFELLER. Lynn Williams, do you feel that the steel workers have had an easy time over the last 6 or 8 years? You know, the general feeling of those who oppose this is that everything has been wonderful, and that the steel industry hasn't been doing what it should have been doing, that steelworkers haven't been doing what they should have been doing. It is my general impression that you have been making some fairly substantial sacrifices. I just wonder if you could elaborate.

Mr. LYNN R. WILLIAMS. Well, the steelworkers as a group, I think, have taken more of a beating in this period than any other group of workers or any other sector, really, in American society. Our members took very serious concessions, those who remained at work. More than 60 percent of our workers, as you mentioned earlier, were laid off. That is maybe just a touch misleading; that more than 60 percent are out of the industry, for all practical purposes, forever and have lost their jobs and are reduced, in most cases, to much lesser employment than they enjoyed in the steel industry.

With some of the companies, we have just recently negotiated our way back to 1982 wage levels. I don't think that is true of hardly anybody else in this society. We have made enormous changes in terms of productivity and all the rest; the productivity in the steel industry has gone up by a measure of 55–60–65 percent over this period. Some of that has been technological improvement, but a great deal of that has been a new commitment by the workers, a change in many work rules and so on that existed for a great many years and were put in, in the first place, to provide some measure of decency and safety in mills that were dangerous places to work and that has historically virtually terrible working conditions.

So the steelworkers have sacrificed a great deal in this period. They continue to. A number of companies, as you know, are still in Chapter 11. We are all very optimistic about what will happen, but the future is far from certain in that regard. And while we have been able recently to negotiate some forward-looking agreements, they are all agreements that are very conscious of this situation. They are agreements in which most of the improvement, after getting back to where we were, is in variable compensation, and there are agreements which focus a good deal of attention onto training and retraining and the issues of the future. So, steelworkers have made a great commitment and continue to.

Senator ROCKEFELLER. Mr. Chairman, I will have more questions if there is to be a second round.

Thank you.

Senator BAUCUS. Senator Heinz?

Senator HEINZ. Thank you, Mr. Chairman.

It is not every day I get to welcome two of my hometown constituents on one panel. That is fully 50-percent representation from Pittsburgh, which is about right. [Laughter.]

And it is nice to see Frank Luerssen and Jon Jenson.

I need to ask Jon Jenson one background question.

Jon, you represent, among other things, the Precision Metalforming Association.

Mr. JENSON. Right.

Senator HEINZ. Who are the customers of Precision Metalformers?

Mr. JENSON. The largest customer is the automotive industry; it buys about 50 percent of the product of our industry. Appliances, computers, just about every aspect of our industrial economy is served by our industry.

Senator HEINZ. I am tempted, but I will not ask how you felt about the auto quota with Japan that President Reagan negotiated in 1981. If you want to respond to that, you do so on your own volition and at your own peril.

Senator ROCKEFELLER. And if you don't answer him, I am going to ask you. [Laughter.]

Mr. JENSON. We are seeking very actively to enter into positive relationships with the transplant automotive companies who have come into this country. In fact, the focus of our association right now is very heavily focused on that.

Senator HEINZ. Do you think they would have come into this country as rapidly without the voluntary restraints on Japanese autos?

Mr. JENSON. I honestly don't know.

Senator HEINZ. You are a very wise man not to go any farther than you did.

I also want to ask Lynn Williams, the Second, or the Senior, as he may prefer——

Mr. LYNN R. WILLIAMS. In age, at least.

Senator HEINZ [continuing]. Or Tom Graham, or Frank Luerssen: You heard both the other Linn Williams and Eric Garfinkel answer a variety of questions. I would like to know whether any of you share any of the kinds of concerns that were implicit in the questions that I propounded to those two gentlemen, or if you have any comments on any of their responses.

Mr. LUERSSEN. I think I had mentioned that we were very pleased that you had addressed those questions to them, because we think they are very probing questions, and they are the significant areas of weakness that could emerge in this total program. So we maintain a high level of concern in that arena, and we will all have to be watchful, I think, about what occurs here in the next 2½ years.

Senator HEINZ. So there is nothing at this point that you want to put on the record regarding either Linn Williams'—the First, or Junior's—answer or Eric Garfinkel's?

Mr. LUERSSEN. Senator, with respect to much of what they said, there is no evidence in the official record yet. We would reserve our commentary on that until they put these agreements into the public record.

Senator HEINZ. Very well.

I have one further comment, and one question. The comment is that Jay Rockefeller and Max Baucus stole my comment about how it is very interesting to see the industrial heartland of America sit-

ting there—ranging from Chicago to Pittsburgh; we incorporate West Virginia in that——

[Laughter.]

Senator HEINZ [continuing]. And seeing them agree on this legislation. It is not often that that happens.

I do have a question for Mr. Jenson, which is this, and I suppose it proceeds from the question I asked you earlier:

You advocated in your statement the use of our unfair trade laws as the industry's principal means of combatting unfair trade. Does that mean that you support those laws in their present form and would oppose weakening them?

Mr. JENSON. Well, I must explain. Our coalition was formed to seek relief from the VRA's. That is our mandate. And we certainly have no position favoring the weakening of trade laws. We are depending on the trade laws, along with the——

Senator HEINZ. Take off your coalition hat for a second. Put on the hat of your personal industry.

Mr. JENSON. Yes.

Senator HEINZ. Think of the auto industry and tell me what you think your personal position would be with respect to your health and your customers' health if our trade laws would be weakened. Would that be advantageous or disadvantageous?

Mr. JENSON. It would be disadvantageous. Our association is on record as having supported the strengthening of our trade laws over the past several years.

Senator HEINZ. Mr. Jenson, thank you very much.

Thank you, Mr. Chairman.

Senator BAUCUS. All right. One other brief second round.

Senator Rockefeller?

Senator ROCKEFELLER. All right. I will make it brief.

Mr. Luerssen and Mr. Graham, what modernization has yet to be done in the industry, and how much is it going to cost?

Mr. GRAHAM. Well, we have a substantial way to go, and, frankly, it won't be done in 2½ years. We won't have the resources, as an industry, to do what needs to be done.

As an industry, we are at a 60–65 percent casting level. We need that number to be 95 percent. There is a wave of new coating lines that are being authorized and constructed right now.

In fact, the nature of our business is one that requires continuous reinvestment. It is a capital intensive business, and we won't ever come, in my judgment, to some plateau where capital won't be required in the future, and I don't think people should think about it in those terms.

There are some easy rules-of-thumb, like currently the percentage of casting, and so on, but that is not the general case. We will always be required to reinvest in our business if we are going to be internationally successful.

Mr. LUERSSEN. Just to add a bit to what Tom said, a little perspective, maybe: We have these two great needs for investment, (1) to continue to the modernization program, and (2) to continue to invest to serve the markets here in the United States better than anyone in the foreign lands can serve them. So that goes to the coating lines of the new cold mills and that sort of thing, and the

other one, in modernization, goes to what we are doing in ironmaking, steelmaking, casting and primary rolling.

Senator ROCKEFELLER. Lynn Williams, do you have any additions to make to those comments about what is going to have to be done to make ourselves competitive?

Mr. LYNN R. WILLIAMS. Well, our particular focus in that area has been in the training area, in terms of investment in human resources, in human capital, as well as these other most necessary elements that Frank and Tom have been talking about. We are attempting to make a major contribution in that direction, and, as I mentioned, in our negotiations, these new career-development programs, as well as encouraging continuing and improving training, in-plant training programs across the industry.

We also believe there is a need for a great deal of help in terms of industrial America generally from our educational system across the country. That is a separate point and not the focus of this particular hearing; but, if America is indeed to succeed in a global economy, a great deal needs to be done in terms of training our existing workforce, in preparing our new workforces for work in a modern, high-tech kind of industry that the steel industry and others are becoming, and we are attempting to do our piece of that ourselves, and the companies together, within the steel industry.

Senator ROCKEFELLER. Mr. Jenson, just to make one comment, you indicated that there were 1,000 members, steel users.

Mr. JENSON. Yes.

Senator ROCKEFELLER. And in your testimony, you referred to CASUM as having 300 members.

Mr. JENSON. Yes.

Senator ROCKEFELLER. I understand that, and I understand what you are going to answer, but I also want to point out that there is an organization of some 400 users of steel who are very much for the VRA's and have been since the beginning. I don't say that to correct you; I just say that to fill out the record.

I must say, also, that I am pleased by what you have said, in the sense that you have come to endorse this bill. You don't agree necessarily with the three gentlemen sitting on your left; but you have endorsed the legislation, and I respect that and appreciate that and thank you for that.

Mr. JENSON. Thank you.

Senator ROCKEFELLER. Thank you, Mr. Chairman.

Senator BAUCUS. Thank you, Senator.

Senator, if you have any more questions, now might be an appropriate time to ask them. We have 10 Senators who have reported their presence, and immediately upon the conclusion of this hearing we will attempt to report out the nomination of Mr. Jones to be the Assistant Secretary of the Treasury. The last Senator, the 11th, Senator Matsunaga, I am told is on his way. So if you want to further take advantage of this situation, feel free.

Mr. GRAHAM. Mr. Chairman?

Senator BAUCUS. Mr. Graham.

Mr. GRAHAM. Could I say something?

Senator BAUCUS. You bet. This is one of those times we look forward to you saying something. [Laughter.]

Mr. GRAHAM. Okay.

I am a little concerned about the bargain that you offered a while back. And, with respect, sir, I would like to restate that a little bit and seek the endorsement of my fellow panelists here.

You put the question that you hoped we would not be back here in 2½ years seeking a VRA extension, and so on, and we have had that question put to us before. I would be willing to accept that, I think, if we could have a little emphasis, which somehow or other gets lost in the fog sometimes, about the President's program as it was defined to us. It was one that provided, on the one hand, for a 2½-year extension, and on the other hand it was coupled with a permanent solution of trade abuse.

Everybody understands 2½ years. Our concern runs to the progress and the ultimate achievement and the elimination, permanently, of trade abuse in steel. Given the achievement of the two elements, we won't be back in 2½ years.

Having said that, I want to thank you for scheduling the hearing. I particularly want to thank Senator Heinz—and I am sorry he got away before he could hear this—and Senator Rockefeller, as Chairman of the Steel Caucus, for their laboring oars in this whole program.

Thank you.

Senator BAUCUS. You make a good point, Mr. Graham. In addition to the mutual efforts of all three of you represented at the witness table, there is also the efforts of the Congress, as well as the administration. We understand that. In fact, when I used the pronoun "we" earlier, I meant to include all of us at that time.

Senator ROCKEFELLER. Mr. Chairman, I would just make an additional point, to buttress what Tom is saying.

You know, for the last 9 years, Europe has poured $40 billion into the subsidization of the steel industry. Italy has not made a profit in the steel industry in what? Fifteen years? Japan, in terms of imports of steel from other countries into its country is what? Averaging around 4 percent? And here we are talking 18 to 20 percent? I mean, it is not exactly like the meanest thing in the world we could do. And Europe, in fact, averages what? About 13 percent in terms of allowable imports into its 12 countries?

I think it is a fair criticism to say, traditionally, that there was a period of time when both the steel industry and the steelworkers were enjoying such a generally good economic situation that things got a bit out of control. Nevertheless, the world market, the growth of Korea and Taiwan and many others, brought that quickly into focus. You lost billions of dollars, billions and billions of dollars, and 60 percent of the steelworkers.

In my State of West Virginia, it is impossible to describe. You know, you throw these figures out like 60 percent, but you have to break those down into individual families and what happens when a father or mother is not working, what happens within that family.

The U.S. Government has a traditional inability to retrain effectively and spend money on workers who have been displaced by imports.

I really have to say that I think both the union and the steel industry has made an incredible effort, has given up 25 percent of its production and, as you indicated, 15 percent is still in bankruptcy;

and, yes, you have made a few dollars in the last few years, and so have a lot of other people; but the signs right now are downward again. You are under pressure, and you are not going to get out of that situation just by modernizing and being more competitive. It is going to have to do also with these other countries dealing fairly in trade, for which, incidentally, I feel there is a very small prospect.

Mr. Chairman, I have run out of things to say. [Laughter.]

Senator BAUCUS. Senator, you have done very well. [Laughter.]

Senator HEINZ. Mr. Chairman, don't you believe that. I have seen Senator Rockefeller in action now as Chairman of the Steel Caucus, and he is superb, he is doing a fine job, and he hasn't begun to tell you even a tiny fraction of what he knows about the steel industry.

Senator ROCKEFELLER. Actually, I had about 25 questions for Mr. Jenson, but he has just totally undermined my entire moral outrage by endorsing the bill. So I have just abandoned my list. [Laughter.]

Senator HEINZ. Mr. Chairman, I simply want to associate myself with Senator Rockefeller's comments, and I won't give my version of his remarks. Lynn Williams has heard them many times, as has Tom Graham.

Mr. LYNN R. WILLIAMS. If there is some dead air to fill, Senator, I am willing to volunteer.

Senator HEINZ. The air that needs to be filled is an air-plane with Senator Baucus in it.

Senator BAUCUS. Gentlemen, thank you very much. I appreciate it.

The hearing is adjourned.

[Whereupon, at 2:59 p.m., the hearing was concluded.]

APPENDIX

Alphabetical Listing and Material Submitted

Prepared Statement of Senator Max Baucus

On July 25th, the Bush Administration announced its proposal for extending the steel Voluntary Restraint Agreement program.

The Bush proposal called for a two and one half year extension of the VRA program.

Meanwhile the U.S. will initiate negotiations aimed at reaching an international consensus to end steel subsidies and other protection.

At the end of two and one half years, the steel industry will rely upon U.S. unfair trade laws to address foreign unfair trade practices instead of VRAs.

Our colleagues in the House moved quickly to put together a package of legislation necessary to carry out the President's plan.

Today, the Senate begins the process of considering companion legislation.

Personally, I believe the Bush Administration has struck a sound balance between the interests of the U.S. steel industry and steel users. The House bill seems to faithfully reflect that balance.

The U.S. steel industry does have legitimate concerns.

Some of our trading partners, particularly the EC and various Latin American nations, have extensively subsidized their steel capacity.

Without a doubt, in the absence of the steel VRA program the U.S. steel industry could bring many successful countervailing duty and anti-dumping cases.

And, as the Section 201 complaint that the steel industry brought in 1984 demonstrated, the U.S. steel industry has suffered because of steel imports.

In 1984, the Administration and the Congress decided that the most efficient way to address the legitimate concerns of the steel industry was to institute a VRA program.

At the time, that was the right decision.

But times have changed.

The VRA program has had unfortunate consequences for domestic steel users.

The VRA program has put some domestic steel using industries at a disadvantage in international markets by raising prices.

The severe steel shortage of 1987 was exacerbated by the VRA and the poor operation of its short supply provisions.

The resulting supply disruption caused a significant competitive problem for steel users.

Since steel is used in such a wide array of industries, everyone from farmers to auto workers suffered.

The problem is that the VRA program was a blunt instrument.

The VRA program lumps almost all of the nations that export steel to the U.S. together. But some clearly engage in more culpable trading practices than others.

We would be better off focusing our efforts on the truly unfair traders.

If the President had chosen to extend the VRA program for longer than two and one half years, I would have seriously considered opposing an extension.

But as it is the President's proposal extends the VRA program long enough to allow the U.S. steel industry to complete the modernizations begun in 1984 while changing the focus of the steel program from limiting imports to ending unfair trade practices.

The legislation passed by the House provides the Administration with the tools they need to implement this plan and includes important safeguards.

I hope that we can quickly pass legislation identical to the House bill.

Before closing I would like to make two points.

First, the Administration is still engaged in negotiations with a few nations to conclude VRAs.

Given the sensitive nature of these negotiations, the Administration has requested that we not press for details regarding ongoing negotiations in this forum.

I hope that all Senators can abide by their request.

Second, I have been somewhat concerned with the manner in which some editorial writers have treated the decision to temporarily extend the VRA program.

Many have argued that the U.S. is being hypocritical to press other nations to remove trade barriers under Super 301 while extending the steel VRA.

There is some merit to this observation. I wish that the U.S. could afford to practice complete free trade. But that is simply not realistic.

Unfortunately, I believe these editorial writers are missing the forest for the trees.

The U.S. does have trade barriers of its own, but it has far fewer than our trading partners.

Even in the sectors in which the U.S. is most frequently accused of protectionism—steel, textiles, and autos—the U.S. imports far more per capita than either Europe or Japan.

Even with the steel VRA, the U.S. is still the worlds number one steel importer.

I don't cite these facts to justify further U.S. protectionism, but it is important to keep the steel VRA program in perspective.

PREPARED STATEMENT OF SENATOR JOHN H. CHAFEE

Thank you, Mr. Chairman. I believe it is important to expedite the implementation of the President's Voluntary Restraint Agreement (VRA) program on steel. We must demonstrate to our trading partners that we are serious, not only about enforcing fair trade practices, but also, working toward a stable global market for steel products.

An extension of the VRA program for 2½ years will give the U.S. steel industry enough time to modernize, and become more efficient. In addition, our trade negotiators will have more time to develop an international framework to end subsidy and dumping practices by all steel producing countries.

As the administration begins to implement the new VRA program, I have some concerns about specific products covered by the agreements. In addition, I would like to see certain modifications made to the program, during negotiations on the individual VRAs. For example, I believe the agreements should contain an explicit breakout for collated steel nails, particularly those agreements negotiated with Japan, South Korea and Taiwan.

Market research shows that both South Korean and Taiwanese collated nail producers are dumping these products on the American market at prices far below those charged in their home countries. I believe the dumping of collated steel nails by South Korea and Taiwan will balloon, unless new VRAs include a separate quota category for these products. Dumping of large quantities of collated steel nails would endanger the future production of these nails in the U.S.

Another necessary modification to the overall VRA program is the improvement of the short-supply measures currently utilized by the Department of Commerce. These measures would allow temporary increases in imports, when our industry cannot meet domestic demand for steel.

Thank you, Mr. Chairman, for holding this hearing. I hope we can expedite approval of this bill by the committee and by the full Senate. We must give our trade negotiators the authority to implement and enforce the agreements they are currently developing.

PREPARED STATEMENT OF ERIC I. GARFINKEL

Good afternoon Mr. Chairman and members of this subcommittee. I am pleased to take this opportunity to tell you about our recent efforts on behalf of the President's *Steel Trade Liberalization Program*. Import Administration is proceeding in two major areas. We are setting up a new monitoring system to review commitments made under international consensus agreements. We have also revised the short supply procedures to make them more transparent and timely. Today, I would like to describe the results of these efforts for you.

As you know, we have recently negotiated a number of international consensus agreements. These "frameworks" for bilateral understandings on steel trade will provide producers with a new way of dealing with trade distorting practices. Now, in addition to remedies available to them under current U.S. trade law, enforcement procedures in consensus understandings are also available to address problems as they arise.

Framework agreements should complement our antidumping (AD) and countervailing (CVD) duty cases. If a producer believes a given import is being subsidized, he may refer the matter to us. Framework agreements generally call for fast-track notification, consultation and binational panel review.

I want to emphasize that consensus agreements will in no way affect the way we interpret, investigate, conduct, enforce or review any case under AD or CVD statutes. Also, consensus agreements will not generate any binational understandings or rulings which would undercut AD or CVD law. Finally, framework agreements will not affect producers in non-signatory countries. U.S. producers will rely exclusively on AD and CVD law for these countries.

Furthermore, consensus agreements will not prejudice the positions we have taken, or those which we will be taking in the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) on questions of market access or subsidies. Quite to the contrary, these bilateral understandings will help support our positions in the GATT.

Let me explain. When we undertook the consensus initiative under the *Steel Trade Liberalization Program*, we believed that we could make more progress with an initiative which did not, at least at first, depend upon the on-going negotiations in the GATT. Now, however, we are looking at ways to make these bilateral steel agreements multilateral. We are counting on consensus signatories to follow-up on their commitments to ensure that we will build on these understandings and establish an effective multilateral discipline for steel by the end of the Uruguay Round.

In the final analysis, the extent to which we can liberalize global steel markets depends on our progress in eliminating trade distorting practices. If we don't attack the problem of subsidies and other market access barriers at the root, we will never see real steel trade liberalization. AD and CVD cases by themselves will not get at the root of the problem. But the bilateral consensus agreements can establish a basis for future progress.

Now I'd like to turn to the revisions we have made in our short-supply procedures.

One area in which we have extensive experience is in the adjudication of AD and CVD cases. These quasi-judicial procedures ensure the fair and open treatment for both producers and consumers of any product. After considering what people liked about our AD/CVD practices, we applied similar criteria to the short supply system. The revisions, which I will outline shortly, improve the transparency and timeliness of the program. This in turn will improve the program's consistency, predictability and overall efficiency.

Here are some of the changes we have made. We shall:

—decide within 24 hours whether a petition contains sufficient information to initiate a case;
—return inadequate requests promptly;
—make decisions within 30 days of the submission of a complete application, except where a new 15-day fast track procedure is warranted;
—make determinations based on a record maintained in the official file in which we shall include a written record of all *ex parte* contacts and conversations;
—require the certification of all information submitted;
—publish determinations in the *Federal Register*.
—hold disclosure meetings to explain decisions, if requested to do so by parties to the review.

We will use the 15-day fast-track deadline if raw steelmaking capacity utilization in the United States has reached 90 percent or more during a previous, representative period. We will use a three-month moving average to define this period. The 15-day fast-track procedure will also be used for products which the Secretary determines are not domestically produced. And, finally, the fast-track procedure will be used if short supply has been granted for the two preceding, successive years prior to a request.

There will be a rebuttable presumption that a condition of short supply does in fact exist for those cases in which the 15-day fast-track is warranted. This places the burden of proof on producers who must then come forward within the 15-day period

and supply it. A lack of response would mean an automatic positive short-supply determination.

There are two additional innovations which I would like to describe before I leave the subject of short supply. First, under the new VRAs there is no 10% ceiling imposed on short-supply licenses, as there was under the old VRAs. Any request for short-supply treatment which cannot legitimately be met by domestic producers under normal production, delivery and market conditions would qualify for the "special" licenses granted under short-supply provisions.

Second, through our experience under the old program, we, perhaps more than any one, have become aware of the very legitimate problems which arise when trying to provide all the information necessary to complete a short-supply petition. In order to facilitate this task, we are developing a set of regulations to help consumers understand just what we need in order to make a responsible decision. We urge consumers and producers to read these regulations when they are published well in advance of their need to rely on them.

Secretary Mosbacher has asked us to install an "800 number," long distance telephone line. We shall publish this number as soon as it becomes available and urge both consumers and producers to take advantage of it. We will be happy to answer any questions about short-supply or anything else having to do with steel. The more information we can make available to the businesses which rely on us, the more efficiently we can do our job.

The *Steel Trade Liberalization Program Implementation Act*, which you will shortly be considering, represents an attempt to balance the needs of producers with the interests of consumers. As I have said, we have recently reviewed and revised some of our administrative procedures in order to make them conform to this requirement.

Right now, we are taking steps to see that countries which have signed VRAs are in compliance with their commitments. In cooperation with the United States Customs Service, we have set up a special monitoring system for those shipments from VRA countries which are not accompanied by a valid export license.

But this interim system has resulted in some delays for importers at the ports of entry. We would like to discontinue it as soon as possible and will be able to do so once we have enforcement authority. The *Steel Trade Liberalization Program Implementation Act* is a good and workable bill. I urge you to pass it quickly, and without amendment, so that we can perform our monitoring and enforcement tasks as effectively as possible.

PREPARED STATEMENT OF JON E. JENSON

On July 25, 1989 President George Bush decided to phase out the program of steel quotas—known as Voluntary Restraint Agreements (VRAs)—that currently restricts imports from nineteen countries and the European Community. The President announced that the VRAs will terminate permanently on March 31, 1992. While the Coalition of American Steel Using Manufacturers ("CASUM") would have preferred immediate termination of the VRAs, CASUM believes that the President's decision strikes a reasonable balance between the interests of steel producers and steel consumers. For this reason, CASUM also supports H.R. 3275, the Steel Trade Liberalization Program Implementation Act.

Termination of the VRAs in 1992 will end the increased steel prices and shortages that undermine the international competitiveness of important U.S. industries, and frustrate the efforts of American manufacturers to meet strong export demand. CASUM is encouraged that the President has agreed that these costs should not be incurred for the benefit of a steel industry that is healthy, profitable, and, after 7½ years of VRAs, will without question no longer need protection.

President Bush also decided to initiate negotiations to achieve an international consensus to eliminate government intervention in steel trade. CASUM supports the achievement of such a consensus. An arrangement that governs steel trade through consensus and through the unfair trade laws will focus government action on the problem of unfair trade where it actually exists, and will help end the harm to American manufacturers caused by blanket steel protection.

CASUM strongly opposes any Congressional effort to override the President's decision, such as by conditioning VRA termination on the achievement of a consensus. With 7½ years of special protection, the steel industry has been given a more than generous period of time in which to restructure and become competitive. And after the VRAs terminate, the steel industry will be able to counter unfair trade with the U.S. trade laws, the same tool that all other industries must use. If a consensus is

achieved, both steel producers and steel consumers will benefit. But if it is not, the costs of VRAs to American competitiveness will still greatly outweigh the benefits of higher steel industry profits. CASUM supports President Bush's decision to terminate the VRAs in 1992 irrespective of progress in consensus negotiations.

BACKGROUND

Prior to the 1984 presidential election, the U.S. government announced a five-year program to restrict steel imports through the use of so-called voluntary restraint agreements. This program was a continuation of years of special protection for the steel industry, which has benefited from some type of import protection almost continuously since 1968.

For many countries, the VRAs were "voluntary" in name only. Selected steel exporting countries were pressured to reduce steel shipments to the United States in exchange for a U.S. commitment to discontinue antidumping and countervailing duty investigations then pending against foreign producers.

Ten of the twenty agreements granted countries a specific percentage of the U.S. steel market, and ten agreements impose tonnage limits on steel imports. To ensure that the benefits of these quotas were not diverted to non-steel endeavors, Congress required that substantially all of the steel industry's cash flow be reinvested in steel operations. The VRAs negotiated under this program expired on September 30, 1989.

On July 25, 1989 President Bush announced his Steel Trade Liberalization Program. The program has the following elements:

- The United States will negotiate a transitional 2½ year extension of the steel VRAs covering the same countries and products included in the expiring VRAs;
- The transitional VRAs will terminate permanently on March 31, 1992. Thereafter, U.S. unfair trade laws will be applied as the more appropriate mechanism to deal with unfairly traded steel;
- The U.S. Trade Representative is authorized to increase the overall quota level by 10% a year, to be allocated to countries that make commitments to freer steel trade;
- The U.S. will seek a broader "international consensus," on steel trade within the GATT context and through bilateral negotiations, to reduce government subsidies and barriers to market access, and to improve enforcement of rules against unfair trade;
- The Administration will adopt significant changes in the short supply process and other administrative procedures intended to make it easier for many companies to obtain steel during periods of shortage.

STEEL USERS COALITION

CASUM includes over 300 companies and associations representing American manufacturers of farm equipment, trucks, construction equipment, auto parts, hardware, industrial fasteners, valves, appliances, food equipment, and industrial equipment, and also representing drilling contractors, boiler manufacturers, tool and machine manufacturers, and others. CASUM members use about one-third of the steel produced in the United States.

Our members face foreign competition at home and abroad and are harmed by restrictions on steel imports. Because steel represents a large portion of our production costs, we and our workers pay the price for protecting the U.S. steel industry.

American steel users historically have had no voice in the steel trade debate. Through the efforts of CASUM, and through the leadership shown by President Bush and many members of Congress, this has changed in 1989.

MANUFACTURERS' REASONS FOR SUPPORTING THE PRESIDENT'S PROGRAM

American steel users support the President's decision to phase out the steel quotas because the costs they impose have threatened the competitiveness of the very American manufacturers who must lead a U.S. industrial resurgence in the 1990s.

1. The President's decision recognizes that American steel-using manufacturers have an important stake in U.S. steel policy because it is critical to overall U.S. competitiveness.

The President's decision reflects the fact that no sensible policy concerning the steel industry can be developed in 1989 by taking into account only the interests of U.S. steel producers. Steel is not an isolated "sector" standing alone, whose problems are unique and disconnected from other sectors of the economy.

On the contrary, steel is an integral component in many important U.S. industries. Steel alone accounts for as much as 15 to 20 percent of the total production costs of industries that produce construction, farm, and industrial machinery, fabricated metal products and appliances. As a result, steel shortages and price increases hurt significantly the competitiveness of steel-using manufacturers and their employees. This fact has become increasingly apparent during the steel industry's 20 years of import protection. U.S. steel prices have on average been 25 percent higher than Japanese and German prices from 1968 until the dollar's depreciation in 1985, according to Paine-Webber.

The competitiveness of steel-using industries is significant for the health of the U.S. economy as a whole. Heavy steel-using industries like metal manufactures, machinery, and transportation equipment employ 5.5 million workers, compared to the approximately 200,000 U.S. steel workers. And U.S. industry investment in the manufacture of steel-intensive products totaled almost $36 billion in 1988.

Steel-using manufacturers represent a significant share of U.S. exports. For example, machinery and transportation equipment accounted for 44 percent of U.S. exports in 1986, and exports comprise 20 percent or more of the total sales of several major steel-using manufacturers. These companies led the recovery in U.S. exports in 1987 and 1988, but they cannot continue to grow if the costs of an important raw material are rising faster in the U.S. than in competing countries.

And these companies are not protected in the U.S. market. Many steel-using industries face foreign competition head on in foreign markets. Others face strong foreign competition at home without special protection.

2. The President's decision is a reasonable compromise between the demand of the steel industry for more protection and the fact that steel quotas have resulted in increased steel prices, created shortages of certain steel products, caused manufacturing inefficiencies compromised modernization plans, and frustrated efforts to increase U.S. production.

In 1987 and 1988, U.S. steel users saw steel prices rise 15 percent on average, and increases were 30 to 40 percent for some products, according to Wharton Econometric Research Associates and the U.S. Producer Price Index. This resulted in a cost to steel users of at least $6.5 billion in 1988.

The U.S. International Trade Commission found that the steel VRA program caused U.S. manufacturers to lose as much as $12.3 billion in sales. The study also concluded that the VRAs resulted in increased imports of manufactured goods containing steel and a decrease in U.S. exports of such products, both due to the higher steel prices caused by VRAs.

While the weak dollar has put the U.S. steel industry in a position to compete with foreign producers' prices, continued indefinite protection would risk driving the price of steel back to a level far above the prices paid by U.S. competitors overseas. American steel users will not be able to regain competitiveness in world markets if U.S. steel prices again rise above those in foreign countries.

In the past steel VRAs also have created shortages which are often more costly than price increases. They create red tape and friction in markets that would work smoothly without VRAs. Steel users have faced lengthened delivery times for steel products, increased inventory costs because deliveries could not be counted on, and the loss of domestic and foreign sales.

Price increases and shortages reduce sales and hinder the ability of U.S. manufacturers to compete. As a result, studies that analyze the impact of steel quotas conclude that the VRAs cost more jobs in other industries than they create in steel. For example, a 1987 study by the Center for the Study of American Business estimated that quotas resulted in employment gains of 17,000 workers in the steel industry, but caused losses of 52,400 jobs for steel users.

For these reasons, CASUM advocated the immediate termination of the VRAs. The President's decision, however, strikes a reasonable compromise between these concerns and the steel industry's demand for more protection. Steel producers have another 2½ years in which to prepare for competition, while steel consumers will benefit from some loosening of the quotas during the transition period and can look forward to the permanent termination of the program in 1992.

3. The U.S. steel industry is ready for a phase-out of the VRAs because it is healthy, profitable and no longer needs protection.

There is no question, given the restored strength of the steel industry, that the industry is ready for a phase-out of protection and a return to competition. The U.S. General Accounting Office, in a study released in July, 1989, found that termination of the quotas could affect the market for individual steel products, but it would likely have little immediate effect on the steel market as a whole. The GAO found

further that the steel industry has returned to normal levels of profitability and has recovered strongly.

Aggressive industry cost reduction actions and the weaker U.S. dollar have transformed the American steel industry into one of the world's low-cost producers. As a result, producers are very profitable, and are operating at full capacity for many products. Prices have risen, some companies are beginning to export again, and the share of imports in the U.S. market is declining.

The U.S. steel industry is no longer an "injured" industry. When steel VRAs were being considered in 1984 and 1985, U.S. steel prices were under pressure and they actually fell in 1985; however, from 1986 through 1988 steel prices have more than recovered. Capacity utilization was at 75 percent in 1985; steel companies operated at 96 percent of capacity in 1988 and are projected to run at over 85 percent into the 1990s. The steel industry lost money in 1984; in 1987 it earned $1 billion, and 1988 earnings were $2 to $2.5 billion. In 1984 the strong American dollar encouraged imports and discouraged exports; even in light of dollar's recent rise it still is over 45 percent below its peak against the Japanese yen an-over 35 percent below its peak against European currencies. Imports accounted for almost 30 percent of the U.S. market in 1984; imports were down to 20.6 percent in 1988, a significant portion of which was semifinished steel purchased by U.S. steel companies themselves. Finally, Japan and the EC have reduced their steel-producing capacity significantly since 1984, and are expected to make further reductions.

4. An international steel trade consensus will help eliminate unfair trade where it exists, and will benefit steel consumers and steel producers.

CASUM supports the President's goal of achieving an international consensus on steel trade. An arrangement that governs steel trade through a consensus and through the unfair trade laws will focus government action on the problem of unfair trade where it actually exists, and will help end the harm to American manufacturers caused by blanket steel protection.

CASUM believes that the specific terms of the consensus negotiations should be left to the U.S. negotiators, and should be realistic. The commitments to be made on subsidies, market access and enforcement should be such that agreement with the fairer steel traders is achievable. Even after a consensus is in place the ultimate tools to combat unfair trade are the unfair trade laws. It is therefore not necessary for a consensus to eliminate all unfair trade. The consensus should be designed to curb the most egregious unfair practices and improve enforcement with a view toward a system where the consensus, combined with the unfair trade laws, provide a realistic means of addressing unfair trade where it exists.

Such a system would provide benefits for consumers as well as producers. Where foreign government intervention such as subsidies exists, American steel consumers are doubly disadvantaged. Not only must American manufacturers pay higher prices and suffer shortages caused by VRAs, but American manufacturers must then compete with foreign manufacturers who buy subsidized steel. Elimination of such practices through a consensus will benefit both steel users and steel producers.

It must be made clear, however, that the consensus issue is a matter independent of the permanent termination of the VRAs. CASUM strongly opposes any Congressional effort to override the President's decision and condition VRA termination on the achievement of a consensus. With 7½ years of special protection, the steel industry has been given a more than generous period of time in which to restructure and become competitive. Achievement of a consensus does not bear on the central issue of the VRAs: that the tremendous costs of VRAs to American competitiveness greatly outweigh the benefits of higher steel industry profits.

In its attempts to find some justification for a longer VRA extension, the steel industry has suggested that the President has forfeited American bargaining leverage in the consensus negotiations by deciding that the VRAs will terminate unconditionally in 1992. In fact, the President's decision has provided the very bargaining leverage that American negotiators need.

It is the unfair trading countries—those that heavily subsidize their industries and deny access to their steel markets—who will most resist the consensus effort, because they are being asked to concede the most. The steel industries in these countries live comfortably under the VRAs. They receive subsidies, and can ship subsidized steel to the United States up to their quota limit with full immunity from the U.S. trade laws. If the VRAs were to continue until a consensus were achieved these countries would never negotiate seriously. Why should they give up guaranteed market share and trade law immunity? It is the permanent termination of the VRAs that will force these countries to recognize that unless they correct their unfair practices, they could lose U.S. market share in 1992 when the trade

laws again are applied. That fear of losing the U.S. market is the best leverage U.S. negotiators could have.

PREPARED STATEMENT OF FRANK W. LUERSSEN

Thank you, Mr. Chairman, for the opportunity to appear at this International Trade Subcommittee hearing today in support of H.R. 3275, the Steel Trade Liberalization Program Implementation Act. I am Frank Luerssen, Chairman of the American Iron and Steel Institute (AISI) and Chairman and CEO of Inland Steel Industries, Inc. My testimony is presented on behalf of the domestic member companies of AISI. With me today is Mr. Thomas C. Graham, Vice Chairman of AISI and President of USS Division of USX Corporation.

Mr. Chairman, passage of H.R. 3275 will enable the domestic steel industry to make further progress in restructuring and modernization by limiting, for the next two and one-half years of continued voluntary restraint arrangements, injury to our industry that may be caused by unfairly traded steel imports.

Furthermore, it will provide important Congressional support for, and oversight of, negotiations—I quote from the bill:

> to seek an international consensus regarding steel trade that provides for (1) strong disciplines over trade distorting government subsidies, (2) the lowering of trade barriers so as to ensure market access; and (3) enforcement measures to deal with violations of consensus obligations.

Since many of our industry's problems over the past three decades have been caused by government subsidies to foreign steel industries and by restrictions on access to foreign markets, we are most supportive of this initiative and have pledged to do whatever we can to support efforts to achieve a fair and enforceable international consensus on steel.

Mr. Chairman, the bill before you, which has been approved by the House of Representatives, is a sound and reasonable basis, both technically and in terms of steel trade policy, for providing the necessary statutory authority required by the Administration to implement the President's program.

—First, it makes the necessary provision by which U.S. Customs must require export certificates for steel entering the U.S. market from countries whose governments have entered into new Voluntary Restraint Arrangements.
—Second, it provides for further improvements, for the benefit of steel consumers, in the short supply feature of the President's program.
—Third, it recognizes the government's longer term goal of moving world steel trade in the direction of a market-driven trade system—the first step toward which is a series of bilateral consensus agreements providing greater discipline over government subsidies and more open markets.
—And fourth, it provides for continuance of the process established under the previous VRA program by which major U.S. steel producers continue to reinvest in their steel operations substantially all of their net cash flow derived from steel.

I submit, Mr. Chairman, that taken as a whole these provisions of H. R. 3275 constitute a proper basis for implementing the Steel Trade Liberalization Program announced by President Bush on July 25. I urge that the legislation be approved.

Extension of the previous VRA program, essentially unchanged, for a further five years, was, as you may recall, the domestic industry's preferred policy choice. This position was shared by a majority of the Senate who cosponsored earlier legislation to extend the program for the full five years.

The Administration's new program is cast differently in several important respects:

—VRAs are to be extended for 2½ years rather than 5;
—the target import-penetration rate is set at 18.4% for all steel mill products from *covered* countries—rather than the original program's 18.5% for finished steel mill products from *all* countries;
—an additional "bonus" one percentage point annual increase is provided for VRA signatories who support the Administration's proposal for an international steel consensus by signing bilateral consensus agreements with the U.S. and by supporting U.S. efforts to multilateralize these agreements in the Uruguay Round;
—and the program emphasizes that after March 31, 1992 any unfair steel trade problems the industry may experience may be remedied *only* by recourse to U.S. trade laws.

These features of the program go further in the direction of liberalization than many of us would have wished in the industry's present circumstances. But we can, and will, support the new program, which is why we urge prompt passage of H.R. 3275 so that implementation can go forward without delay.

I would add one important rider to our comments on the new program. If the industry must rely on U.S. trade laws as the only available remedy for steel trade problems in the future, then those laws—anti-dumping and countervailing duty—must be preserved intact and, where appropriate, strengthened.

We are hearing of attacks on our trade laws from a number of sources—domestic interests who see advantages for themselves in the importation of dumped and subsidized merchandise, and foreign governments, who in the current Uruguay Round of trade negotiations are seeking to weaken our laws. These attacks on U.S. laws must be resisted, Mr. Chairman, with all the energy we can muster. We ask for your support in this effort.

Thank you, Mr. Chairman.

PREPARED STATEMENT OF SENATOR JOHN D. ROCKEFELLER IV

Mr. Chairman, thank you for scheduling this hearing today. Our subject US. steel trade policy—is *very* important to all Americans, not just American steel companies and steelworkers. Indeed, I regard the president's July 25th decision, to extend the steel Voluntary Restraint Agreement program until March 31, 1992, as one of the most significant decisions related to trade policy that he is likely to make this year or perhaps for some time ahead.

When I was named Chairman of the Senate's Steel Caucus this past January, I moved quickly with the distinguished co-chair of the Caucus, Senator Heinz, and introduced legislation to extend the VRA program for another five years. We are proud of the fact that our bill now has 57 cosponsors, demonstrating strong, bipartisan support in the Senate for a continued, meaningful trade policy on steel.

Since introducing that bill, Senator Heinz and I have used every possible opportunity to present the compelling case we believe exists for the VRAs. When talking to Cabinet officials and even to president Bush directly, we have laid out the facts, which to me make an air-tight case.

To put it bluntly, since the end of World War II, governments throughout the world have been getting into the steel business. Outside of the U.S. and Japan, most foreign steel companies are state-owned and state-subsidized. Every developing country has essentially decided to have an indigenous steel industry. I have no quarrel with that. But where I ardently believe we must draw the line is at the place that determines the level of subsidized, imported steel entering our own country.

Fortunately, the president did listen to our arguments, and in July, announced his plan to both extend the current program for another two and a half years, and to begin a process aimed at negotiating an end to "unfair trade practices" in steel. Though I still believe the better decision would be to extend the VRAs for the full five years, I am relieved that the Administration rejected various proposals to drop certain countries and products from being covered by these agreements. For example, exempting a product like semifinished steel, which was suggested by some, would have been disastrous. Our nation's steel industry is doing everything possible to finish major, capital-intensive renovations of its facilities, with the full intent of achieving 100% continuous casting. If we allow our country to be flooded by cheap semifinished steel, American steel industries would be weakened and their modernization plans would be gravely undermined.

The one specific concern I have had with the VRA program of the past was the way in which short supply requests were treated. I am grateful to see that Secretary Mosbacher and the Administration have responded with solid proposals to improve this process.

Because I am a realist and want to see the VRA program fully renewed and activated again, I asked to be an original cosponsor of Senator Packwood's bill, S. 1701, that would give the necessary authority to put President Bush's VRA plan into effect. This will provide the necessary enforcement authority for the VRAs until March 31, 1992—time that the president and Ambassador Hills believe is sufficient to negotiate a comprehensive agreement to end, again I quote, "unfair trade practices" in steel.

It is good and hopeful news that this Administration has taken on this challenge. But let's be honest. That is a highly ambitious, perhaps impossible goal. Just look at what is taking place right now in the Uruguay Round: some U.S. importers and multinational companies are beginning a push to weaken U.S. dumping and coun-

tervailing duty laws. Those are two crucial mechanisms that have been used successfully in the past by steel to redress unfair trade practices by other countries.

My point is that I believe while we pursue the difficult work of trying to eliminate unfair practices like the steel subsidies that abound in other countries, we should not falter or retreat one step from our own national steel policy that rests on the VRA program. This is a policy that is working, but is also a program that is uncompleted. It is a policy that is enabling and even driving our steel industry to reinvest, to modernize, to retrain its workers, and to become truly competitive. In my state, West Virginia, Weirton Steel has embarked on a five-year, $650 million modernization program designed to get them to 100% continuous casting by 1993; and Wheeling-Pittsburgh appears to be on the brink of leaving bankruptcy and being able to start a major modernization effort. We should not allow grander plans for trade negotiations—again, which I also support—to undermine the program, VRAs, that has done so much to enable America's entire steel industry improve their productivity, profits, and performance.

Finally, even though our steel industry has rebounded to some extent, in large part thanks to the VRA program, we must recognize that U.S. steel is *not* out of the woods. Numerous signals are now appearing that indicate the industry may be entering a slump, that prices are falling, profits are evaporating, and inventories are piling up. As noted in news account after news account, steel *imports* and *unfair trade practices* are a principal cause of these disturbing trends. In my view, this underscores the need to continue standing up for America's steel industry and workers.

Mr. Chairman, I believe this Committee should work with the Administration to bring about real solutions and effective changes to assure that steel is traded and treated fairly across the globe. While we all work towards that goal, we should insist on the full implementation and enforcement of the VRA program. This program is producing tangible benefits and making a vital contribution to the entire U.S. economy and workforce that should not be allowed to diminish.

PREPARED STATEMENT OF LYNN R. WILLIAMS

The legislation before you (H.R. 3275 Steel Trade Liberalization Program Implementation Act) reaches a new stage in the development of a national steel policy. To a large extent, the issue of steel imports has been oversimplified into whether the steel voluntary restraint agreements, negotiated in 1984 with most of our steel trading partners, should be extended beyond their termination date of September 30, 1989. Until the Administration made a decision on the extension question and its duration, most of the debate argued the justification for the extension. A coalition of some steel users was organized in opposition to any renegotiations of the steel VRAs. Fundamentally, their opposition centered upon the availability of imported steel at depressed prices despite any violation of U.S. fair trade codes. As a union, we realized that unfairly traded steel imports would ultimately lead to a further reduction in steel mill production and an erosion of steelworkers' standard of living.

After the President's announcement, those arguments were put behind us. The Steel Trade Liberalization Program is designed to address the problems which gave rise to the need for VRAs as a remedy. It is not just a relief-from-injury approach. The enormity of the import penetrations in the pre-1984 period, induced by unfair trade practices, was such that immediate remedial measures were necessary in order to stem severe injury which was occurring. In an indirect way, the VRAs were intended to arrest the unfair practices themselves by limiting the amount of unfair steel imports which could enter our marketplace. Our trading partners, hopefully but unilaterally, were expected to realize that the U.S. market would no longer be an easy target for their steel export if produced and shipped under such trade-distortive practices. It was injury-originated in its objective. Directly, however, the VRAs responded only to the consequences of such practices. Steel could continue to be subsidized and dumped in our markets, but only a non-injurious amount could be exported. The new VRA program, entailing only a 2½-year extension rather than the 5-year duration of the previous arrangements, is geared to address the practices directly. In other words, the new steel policy is designed to address the post-VRA period. The President's statement is explicit:

> I am taking this step [extension] to permit the negotiation of an international consensus to remove unfair trade practices and to provide more time for the industry to adjust and modernize . . . [and] to restore free market forces to, and end government interference in, global trade in steel.

USWA affirms that the 1984-89 VRAs did meet their objectives. Injurious steel imports have been rolled back; our trading partners have been sensitized to lack of justification for continued subsidization of steel exports; and our own industry, relieved of unfair pricing pressure and market erosion, has been able to begin the modernization process.

As a result of this national steel policy, we are reaching a threshold point where a new direction in steel policy is warranted. Let me emphasize the word "threshold." The steel industry and its workers are still vulnerable to the negative consequences of past subsidies and presently existing unfair practices. Hence, there is a need for a continuation of the restraint program in order to hold at bay a reemergence of the negative consequences which we confronted in the early '80's during which time we lost 47 million tons of capacity and 250,000 steelworkers' jobs.

Nevertheless, since we are at the threshold, it is necessary to focus also upon a steel trading system which is not dependent upon further VRA extensions or recourse to countervailing duties/dumping petitions. Beyond this threshold there is expected to be the so-called level playing field. This 1989-1992 extension of the VRAs is oriented, therefore, to an additional objective; namely, the negotiation of fair trade rules for steel, especially as they relate to disciplines over trade-distorting government subsidies and market access barriers.

The President's program requires, therefore, complementary negotiation of an international consensus on fair trade in steel through both multilateral and bilateral agreements.

Shortly, we expect an announcement from the office of the USTR as to the status of those dual negotiations. Candidly, the USWA had sought a longer VRA extension than 2½ because we felt that the injurious consequences of the past trade flows could not be offset by a short-term program. Additionally, we are strongly uncertain about the prospects of a post-VRA international consensus to be effectuated within that time frame. It is our understanding that any bilateral consensus agreements on steel trade practices negotiated at this time with the quantitative restraints arrangements expire at the end of the 2½-year period. Without the continuation of such agreed upon disciplines and enforcement mechanism concerning trade distortive practices in the post-VRA period, we are fearful not only that the practices will not have been eradicated, but also that we will be revisited by the severity of the injurious impact.

But for now, the President's program provides the immediate advantage of a 2½-year relief period. During that period, the legislation requires and the USWA strongly supports a continuation of a statutory obligation that the steel industry commit its resources to modernization of the industry and, most importantly, to the retraining of dislocated workers. If I may, I wish to emphasize that the retraining requirement is in addition to any other program engaged by the major steel companies for an upgrading of active workers. Beyond a doubt, the modernization of the steel industry includes not only investment in its capital stock, but also in its human resources.

Recently, the Union and steel firms agreed, through collective bargaining, to embark upon a joint Career Development Program to enhance workforce quality. The global market competition demands no less. But there remains an obligation to those workers who are permanently severed from the industry. It is those workers to whom the legislation requires a readjustment commitment as a condition for a continued enforcement of the VRA program. The legislation contains specific language dealing with the annual report on the implementation of this commitment whereby fuller disclosure of retraining expenditures for displaced workers will be displayed.

The bill also reinforces the short-supply procedure so as to reassure domestic steel users that they will not be denied access to steel during periods of high capacity utilization and tight market conditions. The USWA endorses the clarifying language. Our intent is to prevent the import of unfair steel when our domestic mills and its workers have been idled. But if shortages occur, our domestic steel users should have adequate access to off-shore supplies and the VRA limitations should be waived under the administrative procedures described.

In the beginning of this testimony, I mentioned that prior to the President's announcement of July 25, 1989, debate about steel trade was directed at the justification for an extension of the steel restraint program. Since then, the focus of the comments has been upon the durability and comprehensiveness of framework (international consensus) agreements and not so much the quantitative restrictions. Perhaps the opponents are satisfied that the restraints will be for only 2½ years. However, USWA insists that the subsequent post-VRA period of an unrestrained market-driven steel trade system does not mean a return to unrestrained unfair

trade practices. If such does occur, we will recede from the threshold to which I referred and remedial restraint measures will again be necessary.

It will be the task of the government in both multilateral and bilateral forums to develop an international consensus. The legislation will give the government the authority to enforce the VRAs in the interim and the Congress the oversight opportunity to monitor the reality of fair steel trade in the post-VRA period beginning April 1992. USWA urges enactment of the legislation, originally introduced by Senators Rockefeller and Heinz, cosponsored by 60 Senators and subsequently refined after the President's announcement, as a *remedial measure* against present endangerment and as a *down-payment* for future stable trade relationships.

PREPARED STATEMENT OF S. LINN WILLIAMS

Thank you Mr. Chairman. It is a pleasure to appear before you today to discuss legislation needed to enforce President Bush's "Steel Trade Liberalization Program."

The program that the President established for steel on July 25, 1989 and that the legislation supports is ambitious. We are seeking an international consensus to reduce and remove trade distorting practices and to extend voluntary restraint arrangements on steel for a transitional two and one half years while that international consensus is implemented.

The President's objective is clear: To establish an international environment for steel where the most egregious unfair trade practices have been eliminated and to terminate gradually our own voluntary restraint arrangements. The enforcement legislation that you have before you is important to achieving that objective.

We engaged in negotiations with VRA countries within one month after the president's announcement on both bilateral consensus agreements and on extension of VRAs. Despite logistical and substantive difficulties, we negotiated both arrangements together, where appropriate. (In centrally planned economies, negotiating an agreement on a consensus was not viable.) To do one agreement without the other would be counter productive.

It would be inappropriate to discuss the details and results of those negotiations at this time because some negotiations are continuing and, although negotiations have been completed in all but two cases, most of these negotiations have not yet been finalized in written form. Most important, entering into discussion on the details of completed negotiations run the risk of undermining ongoing negotiations. Once the agreements are completed, I hope to be able to present the detailed results of our negotiations.

As specified in the legislation, we are seeking to conclude an international consensus to reduce and eliminate subsidies and other barriers to foreign markets for steel. We believe that those practices have been the cause of market disruptions, not only for the United States but also in other countries.

The world steel market over the past decade and a half has been characterized by massive government intervention. Trade in steel has been driven by government policies rather than by market forces. In country after country, governments have sought to prop up ailing steel companies by raising trade barriers and providing trade-distorting subsidies. The result of these activities has been an economic drain on treasuries and the transfer of structural adjustment problems in the steel industry to other steel-producing countries.

The level of subsidization has declined since 1986, as more countries have realized the debilitating effects of subsidies. This, together with a generally improved business climate in the steel sector, have created some favorable conditions for our efforts. Those favorable conditions could change, however, and the President's steel trade liberalization program aims to stop this pernicious cycle and help to put the world steel industry on a rational economic footing. To this end, we have sought country specific agreements to eliminate trade-distorting practices in steel, covering subsidies and tariff and non-tariff barriers to trade.

Effective disciplines over subsidies, including both export subsidies and domestic subsidies, are the most crucial matter in obtaining an international consensus on steel. Since 1981, governments have provided more than $60 billion in subsidies and other financial support to their steel producers. These subsidies have led to structural overcapacity and made worldwide adjustment more painful. Countries need to recognize, and many do, that such subsidies distort trade and that firm commitments to eliminate them and prohibit their future recurrence would benefit all of us.

We are also seeking agreement by foreign steel producers to remove barriers to market access in steel trade. In many countries, steel producers have hidden behind protectionist trade barriers. Along with the extensive use of subsidies, these barriers have fostered dumping of steel. Quotas, voluntary restraint arrangements, import licensing, and minimum import prices are some of the non-tariff barriers that we are seeking to eliminate in these bilateral agreements.

In addition, tariffs should be lowered. The current average worldwide tariffs on steel products is about 10 percent. Some foreign tariffs are as high as 50 percent, while the U.S. average is less than 5 percent. Ongoing negotiations in the Uruguay Round should be the vehicle for reducing tariffs in steel so that all countries are competing on an equal footing in each other's market.

A key element of any agreement to eliminate trade distorting practices is an effective mechanism for enforcement. We are seeking a fast track mechanism that would be a complement to, not a substitute for, U.S. domestic unfair trade laws. Such a mechanism would apply sanctions when countries violate commitments under the consensus. A swift and effective enforcement mechanism, itself, could be a significant deterrent to countries repeating the mistakes of the past and resorting to trade distorting practices.

The President has linked the international consensus with the renegotiation of VRAs. In addition to the current overall restraint level of 18.4 percent of U.S. apparent consumption, the President has established an annual bonus of one percent annually that can be allocated to countries that make commitments to eliminate trade distorting practices. These increases are the inducements needed to secure country commitments to eliminate subsidies and open markets.

In negotiating the extension of VRAs, we are attempting to balance the concerns of not only steel producers but also steel consumers. The two and one-half year extension of VRAs will provide the additional time for the U.S. industry to continue and complete its modernization. At the end of this transitional period, the U.S. steel industry will be in a stronger position to compete not only in the U.S. market but in other countries as well. The combination of a more competitive U.S. industry and fair markets abroad should mean a more profitable domestic steel industry, one better able to reinvest in further modernization. In these renegotiations, we are also paying particular attention to segments of the domestic steel industry that continue to be especially adversely affected by steel imports. Oil country tubular goods, for example, continue to be a sensitive sector and we are seeking further reductions in export ceilings for these products during this transitional period.

During these negotiations, we are seeking a balanced way to address the needs of steel consumers to ensure adequate supplies of raw materials. We are seeking to reallocate restraint levels among countries so that those levels can be better filled. The past program has been criticized because export ceilings were allocated to countries which, because of changing market and competitive conditions, were unable to fill those levels.

We are also seeking to balance the concerns of producers and consumers regarding restraint levels for specific products. Semifinished steel and specialty steel are two areas where some increases in restraint levels are needed, based upon previous import levels, to assure adequate supplies of raw materials to steel consuming sectors.

Mr. Chairman, other changes have been made in the program which my colleague Assistant Secretary Garfinkel will address. Let me conclude my remarks by emphasizing that the legislation that you have before you provides important authority to enforce this ambitious program. My passing as expeditiously as possible this legislation in the same form as passed by the House, the Senate would demonstrate the support of both Houses of Congress to achieve a liberalization of steel trade, determined by market forces not by governments and a further opportunity for the U.S. industry to modernize. Let me add the administration's encouragement for quick passage of this bill. Negotiations will be completed soon, and enforcement authority is essential to its success. Delays only demonstrate a lack of commitment to setting in motion this long-term liberalization program.

COMMUNICATIONS

STATEMENT OF THE AMERICAN GAS ASSOCIATION

I. INTRODUCTION AND EXECUTIVE SUMMARY

The American Gas Association (A.G.A.) is a national trade association composed of some 250 natural gas distribution and transmission companies. These member companies account for approximately 85 percent of the nation's total annual gas utility sales. Natural gas accounts for a considerable portion of the nation's steel industry's process energy needs. A.G.A. and its member companies therefore have a substantial interest in legislation for promoting a strong, healthy and competitive domestic steel industry. Since many of our members are also domestic users of steel products, such as pipe, we also have a primary interest in seeing that a practical and efficient "short supply" process is developed to enable domestic steel purchasers to obtain additional imports of steel products when local supply is unavailable.

A.G.A.'s position can be summarized as follows:

(1) We support legislation which would extend the Steel Import Stabilization Act (Title VIII of the Trade and Tariff Act of 1984, Public Law 98-573), thereby authorizing the enforcement of bilateral Voluntary Restraint Agreements (VRAs) for steel.

(2) We support the adoption by the Department of Commerce of procedures for an effective, efficient, and prompt "short supply" licensing process.

II. EXTENSION OF VRAS

A.G.A. supports extension of the bilateral VRAs. Domestic steel producers use a significant amount of natural gas. Accordingly, A.G.A. is very interested in ensuring a strong domestic steel industry and solid growth in the demand for domestic steel.

Natural gas can be used in all phases of the steel production process. It is the dominant fuel used in steel finishing processes and the primary fuel used in heat treating. As a result, natural gas accounted for almost 40 percent of the U.S. steel industry's process energy needs in 1987 (the most recent year for which we have data) Natural gas, therefore, is currently the predominant process energy form for the U.S. steel industry.

The U.S. steel industry's demand for natural gas declined from a peak of 670 trillion British thermal units (TBtu) in 1974 to 309 TBtu in 1986. Despite a 28 percent increase to 396 TBtu in 1987, the domestic steel industry still consumed about 40 percent less natural gas than in the peak year. While this reduction might not be considered significant in terms of total demand for natural gas, it has had a significant adverse effect on certain A.G.A. member companies in steel producing areas.

III. SHORT SUPPLY LICENSING PROCESS

We support measures to require the Department of Commerce to adopt policies, procedures and criteria for processing short supply applications and to establish deadlines for processing such applications in a timely manner. Under the current VRA system, domestic steel product suppliers to the energy industry have suffered from insufficient supplies of raw materials. Moreover, the "short supply" procedures of the Department of Commerce have been too slow and cumbersome to allow the prompt importation of adequate basic steel products for domestic manufacturers of large diameter steel pipe. A viable core of domestic supplies of steel products needed by the energy industry must be maintained. Our position to streamline the licensing process could help domestic steel users continue their manufacturing operations without interruptions due to shortages of steel supply during tight market conditions.

According to testimony by the General Accounting Office (GAO) before this subcommittee, Allan Mendelowitz, Director of the International Trade, Energy and Finance Issues Office of GAO, stated that "the Department of Commerce does not make public the reasons and results of its reviews [of short supply applications]." [1] Mendolowitz also testified that the Department has no operating policies or procedures for processing short supply applications and that the average time for processing such applications took 236 days in 1986 and 81 days in 1988.[2] This substantial time lag for processing complaints is too long for many steel purchasers, including suppliers to pipeline companies.

Last year, A.G.A. wrote to then Secretary of Commerce William Verity to support a short supply application filed by Berg Steel Pipe Corporation. Our letter was based on conversations with pipeline member companies who expressed serious concerns that an absence of large diameter pipe to fill "short orders" could leave them helpless to respond to their requirements for unplanned, emergency replacements. The pipeline companies noted further that the Department of Commerce took an inordinate amount of time to process short supply applications.

The short supply issue has arisen again in the context of congressional consideration of whether to extend the VRAs. A.G.A. was a co-signer, with other representatives from the domestic energy industry who use steel (Energy-Steel VRA Group), of a letter congressional committee dated February 17, 1989.[3] We urged the committees to make clear in the pertinent committees and conference reports that Congress expects the Department of Commerce to adopt more efficient and effective procedures for obtaining prompt relief when a short supply situation arises.

Steel products needed by suppliers to the natural gas industry should be available to those suppliers on a reliable and predictable basis. The availability of these essential products should not be at the mercy of arbitrary and protracted licensing proceedings. Rather, these proceedings must be improved to ensure the adequate availability of quality products on a timely basis to domestic steel users. If Congress and the Department of Commerce adopt our recommendations, they will satisfy the needs of natural gas pipelines to have an assured supply source for steel plates available when a sell quantity of pipe is needed quickly to maintain service to consumers or to repair an unsafe condition, especially during an emergency situation. Furthermore, assured supply sources will help pipelines with planned expansions to serve new markets and to develop new gas reserves.

IV. CONCLUSION

Natural gas is the predominant process energy form for the U.S. steel industry. To the extent that the domestic steel industry benefits from the VRAs, therefore, natural gas pipelines and local distribution companies, particularly in steel producing areas, benefit as well. Without proper short supply provisions in place, natural gas service and the assurance of safe conditions to natural gas consumers, including the steel industry, could be disrupted under certain circumstances.

A.G.A., therefore, supports an extension of the bilateral VRAs. Furthermore, we encourage Congress to recommend that the Department of Commerce adopt effective, efficient, and prompt short supply procedures.

END NOTES

1. Hearings on H.R. 904, The "Steel Import Stabilization Extension Act," and Other Proposals Related to the Steel Voluntary Restraint Agreements Program Before the Subcommittee on Trade of the House Committee on Ways and Means, 101st Congress, First Session (June 13, 1989) (statement of Allan Mendelowitz, Director, International Trade, Energy and Finance Issues, National Security and International Affairs Division, U.S. General Accounting Office).
2. *Id.* at 3 and 4.
3. Energy-Steel VRA Group includes the American Gas Association, ARCO, Berg Steel Company, Burlington Resources, the Coastal Corporation, Conoco, Inc., El Paso Natural Gas, Enron Corporation, the International Association of Drilling Contractors, the Interstate Natural Gas Association of America, one Star Steel Company, the Natural Gas Supply Association, Oryx Energy Group, Pacific Gas and Electric Company, Panhandle Eastern Corporation, Phillips Petroleum Company, Sonat, Tenneco Gas Pipeline Group, Texas Gas Transmission Corporation and Transco Energy Company.

STATEMENT OF BETHLEHEM STEEL CORP.

(SUBMITTED BY CURTIS H. BARNETTE, VICE PRESIDENT)

On behalf of Bethlehem Steel Corporation, I am pleased to submit the following written statement for inclusion in the record of the hearing of the Subcommittee on International Trade on H.R. 3275, the Steel Trade Liberalization Program Implementation Act.

The prompt enactment of H.R. 3275 is a matter of critical importance to Bethlehem and the domestic steel industry. This legislation extends the enforcement authority for the steel voluntary export restraint arrangement (VRA) program for two and one-half years. It is a necessary complement to the negotiation by the Bush Administration of new VRAs with 28 of our major steel trading partners under the Steel Trade Liberalization Program established by President Bush on July 25, 1989. Time is of the essence! The original VRAs negotiated by the Reagan Administration in 1984, as well as the enforcement authority contained in the Steel Import Stabilization Act, expired on September 30, 1989. Delay in the enactment of H.R. 3275 threatens the viability of an already abbreviated extension of this essential program.

The nation's steel producers and its customers have seen great progress in the last several years. Under the National Policy for Steel adopted by President Reagan in late 1984, the United States had a comprehensive program that worked in helping to address the massive unfair trade related problems facing the industry.

As a result of the VRA program, surges in unfairly traded imports were limited and the industry was able to modernize and restructure its operations with resultant significant improvements in quality and service. The Reagan Steel Policy was good for the industry and its workers, good for its customers, good for the economy and good for the nation's international competitiveness.

We are pleased that President Bush has decided to extend the program. A quick review will show this decision is in the public interest. Back in 1984, imports of unfairly traded steel were surging toward 30 percent of total supply and were likely to continue higher. It was clear that our unfair trade laws weren't working for a trade problem as complex and far reaching as steel's. And low volume, lack of profitability and uncertainty about the future made it extremely difficult for steel producers to plan and carry out industry modernization.

As an industry we have come a long way since then. However, in terms of unfair trade, the problems facing the steel industry today are not that different than they were five years ago. All of the 28 countries covered by VRAs are currently trading unfairly in the U.S. Not most, not almost all, all are currently trading unfairly in this country.

There have been some positive steps taken by our steel trading partners in recent years. Partly because of the pressure of VRAs, steel capacity has been reduced in Europe and Japan. And the pace of subsidization by foreign governments has been slowed.

The fact remains, however, that both Japan and Europe are relatively high cost steel producing regions with excess capacity. Despite their high costs, they remain dependent on exports. The situation in the U.S. is reversed. We are the low cost producer in our home market, but as a result of our restructuring we are dependent on imports for over 20 percent of our steel supply.

It makes no economic sense to open our market to new surges of unfairly traded imports from countries who control their steel industries with excess capacity, closed home markets, and higher costs than ours.

As extended under H.R. 3275, the National Policy for Steel will not be limited to dealing with unfairly traded imports. One of the strongest features of this ongoing policy has been the requirement for the steel industry to use its cash flow from steel operations to modernize, retrain its work force and restructure in ways designed to improve the industry's international competitiveness.

The statistics on industry performance for a wide range of factors in recent years are impressive—labor and energy productivity gains, increased yields, improved quality, and new dimensions of service commitments. To provide a sense of the progress that's been made, here are some notable statistics for Bethlehem:

—An increase of over 75 percent in finished tons per employee.
—A 23 percent reduction in employment costs per dollar of sales.
—A 40 percent reduction in the amount of inventories needed per dollar of sales.
—A 10 percent increase in the amount of finished steel per ton of raw steel.

These figures are by no means unique. All of the domestic steel companies have made similar advances.

As for international competitiveness, an independent expert assessment of the industry's situation was made last year by the International Trade Commission. I quote, "The U.S. sheet and strip industry is currently one of the more cost competitive among the major industrialized countries." It then goes on to say, and again, I quote, "The restructuring of the integrated steel companies in the United States is far from complete—the focus of restructuring in the sheet and strip sector is likely to continue to be on modernization of facilities."

That's our situation today. Despite Bethlehem's, and the industry's, great progress over the last several years, a great deal more needs to be done. To continue and to launch the kind of investment programs needed requires the assurance of limitations on unfairly traded steel provided by extending the VRAs.

The vast majority of our customers are enthusiastic about the transformation of the steel industry in recent years and recognize the value of renewed VRAs. These companies recognize the importance to the United States of having a privately owned, internationally competitive domestic steel industry. Our national security, the strength of our manufacturing base, and the soundness of our infrastructure are all enhanced by a world class, fully competitive American steel industry.

From a trade policy point of view we are pleased that the Steel Trade Liberalization Program has as a major goal the achievement of an international consensus to achieve effective disciplines over trade distorting practices in steel trade. The reported commitment of the European Community to end its long-standing bilateral steel import limitations program by March 31, 1992 is a notable first step in that direction.

Based on our partial understanding of several of the transitional bilateral consensus agreements, there is cause for concern that the consensus may condone past subsidies with ongoing effects as well as significant new subsidies granted pursuant to existing programs. Nor is there any assurance that the consensus will deal effectively with the related practices of closing home markets through non tariff barriers and dumping excess capacity on the export market.

Under these circumstances, it is apparent that we must continue to rely on U.S. trade laws as our primary line of defense against unfair trade, particularly if the transitional VRAs expire in 1992. In this respect we understand that our right to use these statutes will be explicitly unimpaired by the transitional consensus agreements.

In the longer range, it is imperative that the trade laws as we know them today, particularly the U.S. Antidumping and Countervailing Duty statutes, be maintained and strengthened. If the VRAs are terminated in 1992, and the underlying unfair trade practices have not been effectively eliminated, our recourse will be the use of U.S. trade remedies. It is, therefore, vitally important to resist any efforts to weaken those laws in the Uruguay Round of multilateral trade negotiations. Indeed, we should be focusing our efforts on improving the effectiveness of the GATT Antidumping and Subsidies Codes to provide more meaningful disincentives to these pernicious unfair trade practices.

In closing, we wish to express our appreciation especially to the President, Ambassadors Hills and Williams, Secretary Mosbacher, Assistant Secretary Garfinkel and the many other participants in the Administration process for establishing and implementing the Steel Trade Liberalization Program. Having worked closely with the Administration throughout the process, we fully recognize the extraordinary level of professionalism and personal endeavor required to implement the program. Likewise, we also recognize with special appreciation the efforts of Senators Rockefeller and Heinz, Congressman Murtha and the members of the Senate and House Steel Caucuses to generate and sustain a high level of Congressional interest in, and support for, a meaningful extension of the steel VRA program. We look forward to working with both the Administration and the Congress during the next two and one-half years to help assure the successful ongoing implementation of the Steel Trade Liberalization Program.

STATEMENT OF THE COALITION FOR A COMPETITIVE AMERICA: STEEL USERS FOR VRAS

The 437 member companies of the Coalition for a Competitive America: Steel Users for VRAs, strongly support H.R. 3275 and extension of the steel Voluntary Restraint Arrangements. In addition, we also strongly support the President's efforts to negotiate an effective international consensus to eliminate steel trade-distorting practices.

The steel Voluntary Restraint Arrangements have helped domestic steelmakers to become more internationally competitive. In so doing, they have been of direct bene-

fit to the long term international competitiveness of U.S. manufacturers. Like its predecessor, the Steel Import Stabilization Act, H.R. 3275 requires major annual capital reinvestment by the domestic steel industry. This, we believe, will result in continuing improvements in the domestic steel industry's ability to deliver high quality steel products reliably at a competitive price.

The Coalition for a Competitive America: Steel Users for VRAs represents a broad cross section of steel consumers, both large and small, from all sections of the country. Member companies manufacture everything from beverage cans to major household appliances to automobiles.

Prior to implementation of VRAs, U.S. steel markets were chaotic. There were massive unfair trade case filings and serious trade distortions due to a flood of dumped and subsidized imports. As a result, domestic steel users suffered from uncertainty over steel supplies, and many of us had growing concern about the long term viability of America's steel industry. The VRAs, however, have restored stability to the domestic steel market and have enabled U.S. steelmakers to redouble research and development efforts and to modernize facilities, processes and equipment. In part thanks to VRAs, the U.S. today, at 5.6 manhours per ton, has the highest steel labor productivity rate in the world. And that has enabled America's steel-using manufacturers to become more competitive as well.

The Coalition for a Competitive America: Steel Users for VRAs wishes to commend those in Congress who fought for steel A extension. With respect to H.R. 3275, we support: requirements to streamline the short supply provision; language which mandates periodic briefings with Congress as to the progress of international steel consensus negotiations; and above all, language that continues the requirement of annual capital reinvestment by major U.S. steelmakers.

As consumers of steel, therefore, we support prompt passage of H.R. 3275, the renegotiation of all existing As, and the negotiation of an effective international consensus to end steel trade-distorting practices.

STEEL TRADE LIBERALIZATION PROGRAM

(Comments on H.R. 3275 and S. 1701)

As producers, processors and consumers of a major portion of the steel used in the United States, we welcome and endorse the President1s decision to deal forcefully with trade-distorting practices affecting this country's steel sector. For the first time, the President has pledged to root out the causes of the problem—pervasive interference by governments in the business of making and marketing steel around the world. International negotiations, vigorously and urgently pursued, offer the best hope for establishing fair and open international trade in steel products.

We hope and expect that this goal can be achieved through tough, determined bargaining with our trading partners. It is essential that we put our trading partners on notice that their days of being protected from America's trade laws are numbered. We urge the President to use all means at his disposal to bring steel producing countries to the table to negotiate effective disciplines on subsidies and tariff and nontariff barriers. If such agreements cannot be reached by March 1992, then we urge the President to take definitive and decisive measures, including action under Section 301, against unfairly traded steel, whatever its source.

We call on all steel producers, service centers and end users to join us in giving strong, continuing support to the President's commitment. We are partners in international competition and we should be partners in seeking effective solutions to the steel trade problems that have caused so much turmoil and dissension over the past two decades. The President has taken a bold initiative; we pledge to work with the Administration to achieve a decisive resolution to the world steel trade problem.

PARTNERS FOR INTERNATIONAL STEEL CONSENSUS

Alliance of Metalworking Industries; American Wire Producers Association; Chaparral Steel Company; Cold Finished Steel Bar Institute; Committee on Pipe and Tube Imports; Forging Industry Association; Industrial Fasteners Institute; The Material Handling Industry of America, Inc.; Metal Treating Institute; National Tooling & Machining Association; Steel Service Center Institute

Alliance of Metalworking Industries is composed of ten trade associations representing diverse sectors of the metalworking community. Companies represented within AMI employ 701,798 people in 11,211 manufacturing plants with combined sales in excess of $90.4 billion annually.

American Wire Producers Association is a national trade organization which represents independent American owned and operated manufacturers of carbon, alloy

and stainless steel wire and wire products. Our membership also includes integrated and minimill producers of steel wire rod, wire drawers related to domestic wire producers, wire drawers related to foreign steel companies, and suppliers of machinery and other equipment to our industry. Member companies of the AWPA operate more than 110 plants in 31 states and employ more than 30,0000 American workers. With more than $10 billion in sales, our members are efficient producers using modern facilities and a productive labor force. Members supply approximately 80 percent of the domestic market for steel wire and wire products.

Chaparral Steel Company (Midlothian, Texas) is a modern, efficient and low-cost producer of steel bars and bar shapes, structurals and reinforcing bar. Chaparral sells steel throughout the United States and abroad and is aggressively seeking new export markets as part of its marketing strategy.

Cold Finished Steel Bar Institute is a trade association composed of twenty-one U.S. producers of cold finished steel bar (CFSB). In addition, ten domestic producers of hot rolled bar and wire rod, the raw materials for CFSB, are associate members of the Institute. These latter members include basic steel producers and mini-mills.

Committee on Pipe and Tube Imports is a trade association of domestic steel pipe and tube producers with 64 production facilities in twenty states employing approximately 16,000 people. CPTI members account for about 75 percent of domestic production of pipe and tube products or more than 4 million tons of pipe and tube products in 1988.

Forging Industry Association is an association of 160 U.S. and Canadian producers of impression die and seamless rolled ring forged products for use as components or end-item parts in aerospace, automotive, off-highway, construction, marine, industrial, truck, petrochemical, hand tool, and consumer markets. In addition, 50 companies which provide material, equipment and services to the forging industry are Supplier members of FIA.

Industrial Fasteners Institute is an association of the leading North American manufacturers of bolts, nuts, screws, rivets, and all types of special formed parts. IFI's ninety member companies combine their technical knowledge to advance the technology and application engineering of fasteners and formed parts through planned programs of research and education. Starting in 1985, forty-five suppliers of equipment, material and services commonly used in fastener manufacturing joined the Institute as Associate Members to further assure and enrich the technological posture of the North American fastener industry. The Institute and its member companies work closely with leading national and international technical organizations in developing standards and other technical practices.

The Material Handling Industry of America, Inc. is a 450 member trade association of manufacturers of material handling equipment with shipments of $40 billion. This industry employs about 347,000 and consumes about 15 percent of the domestic steel produced.

Metal Treating Institute is an international trade association of commercial heat treating companies with 345 members throughout the world, 90 percent of which are domestic. The commercial heat treater is an independent job shop that performs various heat processing services, i.e. hardening, brazing, annealing, of ferrous and non-ferrous products for a cross section of industries, including aerospace, automotive, construction and defense.

National Tooling and Machining Association, composed of almost 3,100 member companies throughout the U.S., is the national representative of the $20 billion a year applied technology industry. Without the service of this industry, modern mass production would not be possible. Member firms contract to design and manufacture tools, dies, molds, gauges, special machines, and provide precision machining services to virtually every other manufacturing industry. Among the customer industries are automotive, aerospace, agriculture, chemical, home appliances, electronics, energy, and defense-related industries.

Steel Service Center Institute is a trade association representing $24 billion steel service center industry. America's steel service centers purchase and distribute one out of every three tons of carbon industrial steel products and nearly half of all stainless steel produced in the United States. Steel service centers are the largest single customer group of the domestic steel industry and serve the metal supply needs of more than 300,000 manufacturers and fabricators through plant locations nationwide.

STATEMENT OF GENEVA STEEL

These comments on S. 170, the Steel Trade Liberalization Program Implementation Act, are submitted on behalf of Geneva Steel, an independent, integrated steel mill located in Provo, Utah.

Geneva Steel is the only integrated steel maker remaining west of the Mississippi River. It produces semifinished steel, hot rolled sheet and strip, plate and line pipe. In 1988, Geneva produced 1.7 million tons of raw steel and shipped 1.4 million tons of steel products.

The mill has been as an independent entity for barely two years. In that period, it has become a nationally recognized leader in productivity and ranks as one of the lowest cost U.S. steel producers. Geneva Steel is undertaking a major modernization of its facilities, including installation of a coil box and ultimately, a continuous caster, in addition to more than $40 million spent to date on improvements to plant and equipment.

Since many of the issues of concern to Geneva Steel with respect to the VRAs have been or will shortly be resolved by the U.S. negotiators, the focus of these comments is the short supply program administered by the Department of Commerce. This program has been the focus of much criticism by steel users who have claimed that it was administered too restrictively, resulting in shortages of various steel products. These criticisms have obscured some basic facts, however, which the Committee should take into account in its consideration of S. 170. They are summarized below.

Critics of the short supply process allege that it has choked off supply of vitally needed imports.

Fact: In 1988, 1.2 million tons of imports over and above the VRA limits were available through short supply authorization in response to 27 requests filed by companies seeking those imports. *Only 609,000 tons of 1.2 million tons authorized were ever imported, or about half.*

Such criticism has focused, in particular, on the level of semi finished steel imports authorized through the short supply process. Yet there has not been any shortage of semifinished steel imports.

Fact: The Commerce Department authorized 750,000 tons of additional semifinished steel imports through short supply pursuant to 1988 requests. *Only 360,000 tons were actually imported or about half.*

Certain companies which have sought to alter the short supply process claim that they have been injured by restrictions on the amount of short supply they can get. None of these companies have utilized the full amount of short supply imports authorized pursuant to their requests.

Facts: *Caterpillar:* bought only 4,000 tons of imports out of the 13,000 tons authorized in 1988.

California Steel Industries: purchased only 51,000 tons of 73,000 tons authorized after originally requesting 210,000 tons in 1988.

Lone Star Steel: purchased only 307,000 tons out of a total amount authorized through short supply for all Lone Star requests of 500,000 tons.

Moreover, there have been abuses by U.S. steel users of the short supply process which have not received the attention they deserve. In 1988, a major purchaser of imported semifinished steel sold a large part of its inventory—imported under short supply license—to other users, presumably at a profit. The short supply program was clearly not intended to be used in this manner.

S. 170 incorporates the President's proposals to improve transparency and timeliness in the administration of short supply. Geneva Steel supports these proposals and urges the Committee not to attempt any additional "reforms" of the short supply program since they are not warranted by the facts.

STATEMENT OF THE SPECIALTY STEEL INDUSTRY OF THE UNITED STATES

(SUBMITTED BY ROBERT E. HEATON, PRESIDENT AND CHIEF OPERATING OFFICER, WASHINGTON STEEL CORP.)

Mr. Chairman: My name is Robert E. Heaton. I am President and Chief Operating Officer of Washington Steel Corporation, a large U.S. producer of stainless steel flat-rolled products. I am pleased to submit this statement on behalf of the Specialty

Steel Industry of the United States, to urge enactment of S. 1701 the "Steel Trade Liberalization Program Implementation Act," which would extend the termination date for enforcement of bilateral steel arrangements until March 31, 1992. The Specialty Steel Industry of the United States consists of U.S. producers of stainless and heat-resisting steels, electrical steel, tool steel, and special alloy steels. The industry employs approximately 35,000 men and women and its advanced technology products are valued at over $5 billion. A list of the members of the industry is attached as Exhibit I.

On July 25, 1989, President Bush announced a two and one-half year extension of the Voluntary Restraint Arrangement ("VRA") program that limits steel imports into the United States, including specialty steel products previously covered by VRAs, as well as those products covered by the industry's section 201 import relief program. The extension was embodied in a broader steel Trade Liberalization Program, the focal point of which is the establishment of an international consensus to provide "effective disciplines over government aid and intervention in the steel sector and to lower barriers to global trade in steel."

The specialty steel industry welcomes the decision to renew the VRAs, and it urges the Senate to enact quickly the legislation—already passed by the House—that will provide the Executive branch with the authority to enforce those arrangements. While the industry supports the VRA program and its implementing legislation, however, we wish to underscore our disappointment with the short duration of the renewal of the program. The disappointment arises out of the fact that:

1. We are skeptical that the underlying causes of the steel trade problem—foreign excess capacity, dumping and government subsidies—can be ended by 1992 through the consensus process; and

2. Given, recent uncertainty in the market, the extension period is too short to allow domestic producers to proceed with confidence on necessary capital spending projects.

As you know, the VRA renewal was granted as a stopgap measure to allow the government sufficient time to negotiate the international consensus on subsidies and other unfair barriers to trade in steel. The industry commends the Administration for its efforts to deal with this crucial problem. Past experience, however, indicates how difficult it will be to eliminate so pervasive and longstanding a practice as foreign government support for unprofitable and inefficient—but politically very powerful—steel industries. We support the effort and will help in any way we can. Of course, should the negotiations fail, and our trading partners refuse to curb their unfair trade practices, this will not prevent the floodgates from reopening in March 1992—leaving the domestic industry vulnerable to injury from a new influx of unfairly traded imports.

The specter of greatly increased levels of unfairly traded imports is no mere figment of the imagination. Quite the contrary; much of the foreign excess specialty steel capacity that has been the source of the unfair imports that have injured the U.S. industry in the past is still active, and could easily make major inroads in the U.S. market once the VRAs have ended. Moreover, major specialty steel producing nations such as Sweden and Taiwan have refused to participate in the VRA process and will have unfettered access to the U.S. market.

As if the existing level of overcapacity were not enough of a threat to U.S. producers, foreign specialty steel capacity is today undergoing an unprecedented expansion. The specialty steel industries of Taiwan, Korea, Mexico, and Finland are at the forefront of this capacity buildup. In total, the expansions currently under way will add approximately 2.9 million tons of new specialty steel capacity, more than the U.S. industry's total capacity, and more than the level of U.S. consumption of specialty steel in record-breaking 1988 and 1989. *See* Exhibit 2. Much of this new capacity is being installed with direct or indirect government support. Further, we believe this proposed capacity buildup has been a major factor in many countries seeking large-scale increases in their specialty steel allotments during the recent round of VRA negotiations.

This new climate exists in marked contrast to the past five years, when the VRA program afforded a degree of unprecedented market stability. The industry made good use of that period of calm, investing more than $760.0 million in capital projects, or 51 percent of our cash flow between 1983 and 1988. Annual research and development expenditures during the period averaged $40.0 million, or 1.5 percent of sales—twice the rate of R&D spending for the steel industry as a whole. As a result of this aggressive spending program, impressive gains in productivity and efficiency were made. For example, the number of hours required to produce one ton of specialty steel in the United States was reduced by a dramatic 41 percent between 1982 and 1988.

Unfortunately, the short VRA extension, coupled with the uncertain outcome of the government's negotiations on the international consensus mean that the industry faces a new period of uncertainty; an uncertainty that is underscored by the amount of additional foreign capacity that is poised to come on stream. The uncertainty is also compounded by the volatile nature of raw material prices—particularly chromium, nickel, and vanadium. Since 1987, prices for these key alloying elements have escalated dramatically, with similar effects on most specialty steel prices.

Finally, there is uncertainty due to the fact that the industry is experiencing a slowdown in demand following the record consumption levels of 1988. In the first seven months of this year, shipments of stainless sheet and strip were off 7 percent from last year's level, shipments of plate were flat, shipments of stainless bar were down by 6 percent, shipments of stainless rod were slashed by 40 percent, and shipments of wire were down by 11 percent. Only electrical steel and tool steel showed appreciable increases—4 percent and 8 percent respectively—and even these year-to-date increases are likely to shrink or disappear entirely, given that in the past two to three months, shipments of these products have declined significantly.

This Committee, as it considers extension of the VRA enforcement authority embodied in S. 1701, should consider the tenuous competitive environment in which the extension program will take place. The specialty steel industry can take little comfort in an ideological pledge to eliminate trade-distortive practices in the international steel marketplace through a consensus among steel producing nations on subsidies and unfair trade practices. Previously, foreign government aid to the steel sector had been provided as an offset to massive operating losses. Whether these governments are willing to allow restructuring to occur when demand declines and those losses begin again will be the true test of the consensus process.

The major decisions that our industry must make regarding investment and production cannot be based on the theoretical prospects that a market free from trade distortive practices can be established. The VRA program provided our industry with a measure of predictability regardless of the size of our markets. We responded accordingly with substantial investment in new capital and R&D, and we have been rewarded for those efforts. When the VRA program ends in April 1992, this environment will no longer exist, and we will be confronted with a series of commitments by some—not all—foreign governments to eliminate the subsidization of their steel industries and to remove other barriers to global trade. Will these commitments be of a permanent nature? Will these commitments be honored when the steel operations of these countries begin to incur some substantial losses, or will the cycle of subsidization, and maintenance of excess capacity, and dumping merely begin anew? The answers to these questions will do as much to shape planning in the specialty steel industry for the 1990s, as will the speculative, although well intentioned, objectives that have motivated our government to pursue the establishment of an international consensus.

Attachments.

EXHIBIT 1.—MEMBERS OF THE SPECIALTY STEEL INDUSTRY OF THE UNITED STATES

Allegheny Ludlum Corporation, 1000 Six PPG Place, Pittsburgh, Pennsylvania 15222-5479

AL Tech Specialty Steel Corporation, Post Office Box 152, Dunkirk, New York 14048

ARMCO Advanced Materials Corporation, Post Office Box 832, Butler, Pennsylvania 16001

Carpenter Technology Corporation, Post Office Box 14662, Reading, Pennsylvania 19603

Crucible Specialty Metals Division, Crucible Materials Corporation, Post Office Box 977, Syracuse, New York 13201

Cyclops Industries, Inc., Cyclops Building, 650 Washington Road, Pittsburgh, Pennsylvania 15228

Jessop Steel Company, Jessop Place, Washington, Pennsylvania 15301

J&L Specialty Products Company, Post Office Box 3373, Pittsburgh, Pennsylvania 15230-3373

Latrobe Steel Company, 2626 Ligonier Street, Latrobe, Pennsylvania 15650

Mercury Stainless Corporation, 475 W. Allendale Drive, Wheeling, Illinois 60090

Precision Specialty Metals, Inc., 3301 Medford Street, Los Angeles, California 90063

Slater Steels Corporation, Fort Wayne Specialty Alloy Division, 2400 Taylor Street West, Fort Wayne, Indiana 46801

Teledyne Vasco, Post Office Box 151, Latrobe, Pennsylvania 15650

EXHIBIT 2.—RECENT/PLANNED FOREIGN CAPACITY ADDITIONS

Country/Company/Source	Product	Capacity to Be Added/Date of Completion
AUSTRIA/Boehler, GMBH (ITC 1988 Survey at 16).	Stainless sheet and strip, plate bar, and tool steel.	+ 50,000 metric tons (MT), 1988
BELGIUM/ALZ NV (ITC 1988 Survey at 16)	Stainless steel, strip, plate	+ 220,000 MT/June 1989
BRAZIL/Acesita (ITC 1988 Survey at 17)	All stainless products	+ 60,000 MT/Planned
FINLAND/Outokumpu Oy (ITC 1988 Survey at 18; Metal Bulletin, April 7, 1988 at 25; April 11, 1988, at 37).	Stainless steel, strip, plate	+ 500,000 MT/1988 + 100,000 MT/1989
JAPAN/Kawasaki (Metal Bulletin, Feb. 27, 1989 at 23).	Stainless steel strip, plate	+ 120,000 MT/1990*
KOREA/Dae Ying Metal (Id.)	Stainless sheet, strip	+ 16,000 MT/1989
KOREA/Dongbang Special Steel (Metal Bulletin, July 17, 1989 at 26).	Stainless wire rod	+ 50,000 MT/1992–3
KOREA/Inchon (ITC Survey at 20)	Electrical steel, Stainless steel	+ 50,000 MT/Nov. 1989
KOREA/Posco (Metal Bulletin Monthly, September 1988 at 59; ITC 1988 Survey at 20).	Stainless sheet, strip	+ 300,000 MT tons/1989
KOREA/Sam Yang (Id.)	Stainless strip	+ 36,000 MT/Planned
KOREA/Sammi (MB Monthly at 62, private market research).	Stainless sheet, strip, bar/rod	+ 500,000 MT/Dec. 1989
KOREA/Tong Yang Moolsan (Id.)	Stainless strip	+ 5,000 MT/Aug. 1988
MEXICO/Mexinox (Metal Bulletin Monthly, April 1989, at 59; Mexinox, undated corporate announcement.	Stainless sheet/strip	+ 55,000 tons/1990 (finishing) + 240,000 tons/planned (melting)
SPAIN/Acerinox (Metal Bulletin, June 16, 1988 at 35; ITC 1988 Survey at 20)	Stainless sheet, strip, plate pipe and tube.	+ 110,000 MT (estimated) 1989
SWEDEN/Avesta (Metal Bulletin, May 23, 1988 at 41).	Stainless pipe and tube	+ 2,000 MT/1988
SWEDEN/Avesta (ITC 1988 Survey at 21)	Stainless wire rod	+ 18,000 MT/1990
TAIWAN/Tang Eng (ITC 1988 Survey at 21)	Stainless sheet, strip, plate.	+ 256,000 tons/1995
TAIWAN/Yeun Chyang (private market rsch.)	Stainless pipe and tube	+ 24,000 MT/1989
TAIWAN/Ta Chen (Id.)	Stainless pipe and tube	+ 1,800 MT/1990
YUGOSLAVIA/Jugoalot (Metal Bulletin, July 13, 1989 at 25)	Alloy tool steel	+ 5,400 MT/1990 (est.)

STATEMENT OF THE STEEL MANUFACTURERS ASSOCIATION

The Steel Manufacturers Association represents 48 steel company members in the U.S., Canada and Mexico. On behalf of our members, we are presenting our views to the Trade Subcommittee of the Senate Committee on Finance on S. 1701, the VRA extension legislation. The company members of SMA, manufacture steel mill products, including rod, wire, bars, structurals, sheet and plate, rails and posts. Most of our SMA members melt steel in electric arc furnaces, while others hot roll steel into additional mill products.

SMA member companies have traditionally been called "mini-mills" or "market mills." Sales of our member companies were more than $8 billion in 1988 and we employ more than 35,000 people in highly paid industrial jobs. One of every four tons of carbon steel produced in the United States is a mini-mill product and this share is growing each year. Mini-mills have grown rapidly in size and number, more than doubling their output in the past ten years.

The SMA strongly supports extension of the government's steel VRA program in its present form. We therefore support the legislation before this Committee, namely S. 1701, providing Congressional authority for extension of the VRAs.

We have the following reasons for our position:

(1) There is still substantial overcapacity in the world steel market. The OECD estimates this over-capacity in the Western World to be close to 100 million tons. That exceeds the current size of the U.S. steel industry.

(2) An extension is necessary because any major steel mill investment requires at least two years for installation, and an additional two—three years to realize its full commercial potential.

(3) Limitations on market access worldwide, continue to be the norm in steel trade. Since 1978, the European Community has maintained a system of steel voluntary restraint arrangements with most supplying countries, restraining imports into

the European Community at little more than half the level entering the United States. Japan has been able to restrict steel imports to a level between four and six percent of the Japanese market on average over the past decade, through effective pressure on domestic distributors and customers. Almost all of the developing countries in Latin America and the Far East limit steel imports to products their domestic producers cannot supply. With few exceptions, steel companies simply cannot export steel freely to most other countries.

(4) The U.S., even with VRAs, continues to have the highest steel imports to consumption ratio of all the developed countries.

(5) Users have not suffered due to the VRAs. In fact, the competitiveness of U.S. steel users, due to steel costs, has improved. In 1984, a ton of U.S.-made steel cost $437 and a ton of Japanese steel cost $432. In 1988, that same ton of U.S. steel cost $456, while the Japanese ton of steel cost $613. That is why Japanese steel exports to the U.S. declined 1.5 percent in 1988, but increased in dollar value by 16 percent, to $3.2 billion. Compared to average domestic steel prices in 1984, U.S. steel prices, even with significant raw materials inflation, were only 4.6 percent higher, on average, during 1988. Scrap prices during that same period were up over 20 percent.

If U.S. steel consumers have had any problems with respect to the supply of steel, it may be that they have not anticipated the success of U.S. economic policy efforts to address the trade deficit by lowering the value of the dollar. This has increased the price of foreign steel well above U.S. steel prices, causing foreign steel producers to sell in markets outside the U.S., at these higher world steel prices, leaving the VRA quotas of member countries unfilled. Fortunately, most well managed U.S. steel consumers understand that rising world steel prices, rather than the VRAs were the cause of any temporary tightness of supply in 1988–89. They appreciate the need for an adequate supply of steel from competitive, modernized North American producers and therefore endorse the extension of the VRAs.

(6) Much of the world's steel output is still produced by state-supported and state-owned companies. We believe we are among the most highly competitive producers in the world. Yet we are particularly concerned that OECD data confirm that much of the expansion in steel-making capacity currently underway outside of the United States is in the electric furnace steel-making sector, financed in major part with government funds. Even highly competitive market mills like ours find it difficult if not impossible to compete against imports of "social" tons from subsidized producers over the long-term. Despite the potential for debt forgiveness with respect to the debt of several developing countries, most must continue to export steel and other products to service their remaining debt. We believe that subsidized steel from these and other country sources will continue to enter the U.S. in sufficient quantities to de-stabilize the U.S. steel market during the inevitable downturns in the business cycle which will occur.

That is why extension of the VRAs is essential. Two major factors support such an extension: (1) Bringing a new plant or a major new equipment installation on line takes much time. VRA extension will help to maintain needed U.S. investment in steel facilities. (2) A truly effective international steel consensus in needed, simultaneously eliminating subsidies, limitations on steel imports into domestic markets, dumping, and tariff disparities. Why should other countries negotiate such a consensus without U.S. VRAs in place?

The U.S. and other countries should address the world steel trade problem through negotiation to achieve fair trade and investment rules applying to all steel producing countries. The U.S., the EC and Japan should be in full agreement that access to developed country markets must be contingent upon such a consensus. If such a consensus is not achieved, the U.S. cannot be the only major country willing to allow unimpeded steel imports.

Finally, the already massive costs of environmental regulatory requirements to which U.S. steel companies are subject, are rapidly escalating. Many countries have little or no environmental requirements, or have such costs wholly or partly subsidized by their governments. Other steel industries should not be permitted to obtain increased U.S. market share due to non-market-based avoidance of domestic environmental costs. Any international steel consensus agreement should incorporate either tariff or tonnage adjustments at the border to compensate for trade flow increases resulting from national disparities in environmental control costs caused by inadequate foreign regulation, or by subsidies.

Statement of the U.S. Council for an Open World Economy

(SUBMITTED BY DAVID J. STEINBERG, PRESIDENT)

(The U.S. Council for an Open World Economy is a private, nonprofit organization engaged in research and public education on the merits and problems of developing an open international economic system in the overall national interest. The Council does not act on behalf of any "special interest.")

Once again, as I have argued so often for so many years, the vehicle for U.S. government attention to the problems and needs of the domestic steel industry is flawed. The Steel Trade Liberalization Program Implementation Act (H.R. 3275 passed by the House of Representatives and now before the Senate) is a significant improvement on past offerings, but still falls short of a policy that would best serve the national interest.

For too long, the basic question for government policy with respect to the steel industry has been: to restrict steel imports or not to restrict them, and if to restrict them, then how much and for how long. The basic question the government should address is: (a) does the U.S. steel industry need and deserve government help for viability in the face of rising, often unfair, foreign competition, (b) if government help is needed to complete the revitalization of this vital industry, is import restriction necessary (how much and for how long) to ensure a successful result, and (c) what kind of coherent steel-redevelopment policy should be the framework for whatever import restraints may be necessary? In short, if this industry truly needs and deserves government help at public expense, the nation needs a *steel redevelopment policy*, not just a *steel trade policy*.

The steel strategy should include (a) a reasonably detailed and acceptable commitment by the steel producers concerning how they will use the period of import restriction (if import restriction is part of the policy), (b) equitable provisions and procedures to protect domestic steel-using industries against short-supply or unfair-pricing contingencies in supply from domestic sources, (c) reassessment of all statutes and regulations materially affecting the steel industry (including the adequacy of anti-dumping and anti-subsidy proceedings), and correction of any inequities or inadequacies, (d) financial and other assistance that may be necessary, (e) systematic review of this policy by Congress annually to make sure the policy is ensuring a strong domestic steel industry, is causing no harm to U.S. steel-using industries, and overall is serving the national interest, and (f) persistent efforts, through overall trade policy or sector negotiation of a fair-trade-in-steel agreement, to stop unfair practices in the world steel market. The best obtainable sector agreement is not likely outside a comprehensive, multilateral, free-and-fair-trade compact in which the whole range of trade-offs encompassing all products and practices would foster consummate, equitable reciprocity in all sectors. No such free-trade strategy exists or seems in the offing.

To re-emphasize: no steel import controls without a coherent steel-redevelopment strategy worthy of the name—coherent, comprehensive, constructive, and convincingly in the total national interest. We have never had such a policy. Without it, continuing demands for steel import controls of one kind or another could be in the offing, with powerful political support; and the steel modernization program for which these import controls are supposed to buy time could be a pig in a poke.

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